March 2007

The African Capacity Building Foundation

Final Report

Review of Public Expenditure Management in Sub-Saharan Africa

Prepared by:

PAMNET

PART 1: OVERVIEW

1. Introduction

This report has three parts. Part 1 provides an overview of Public Expenditure Management (PEM) issues in Africa. It focuses in some detail first on the concept of the MTEF as an essential ingredient of PEM systems in sub-Saharan Africa and elsewhere in the developing world.

Section 3, Part 1, examines the issue of “coordination at the centre”, a key factor in determining the efficacy of PEM in general and the budget decision-making process in particular. Section 4 analyses whether the problems of PEM in Africa are linked to the inherited colonial systems. Finally, section 5 looks at how PEM systems and MTEFs in particular are being linked to poverty reduction programmes in African countries.

Public expenditure is one of the critical ingredients of a country’s development. To ensure that public expenditure is efficient and effective, it is essential that resource allocation decisions are underpinned by sound analysis and that a well-designed set of institutions, systems, processes, and a performance focus guide budget formulation and execution. Public expenditure issues touch on virtually every aspect of a country’s development management as the budget is almost everywhere a central mechanism in translating policies into results on the ground. Sustainable poverty reduction, for example, will always require informed and well functioning resource allocation processes - due to their impact on macroeconomic stability, the allocation of resources to strategic priorities, and the efficiency and effectiveness with which policies are implemented.

Most African countries face conflicting pressures and hard choices in their budget processes. Budgets, and how public funds are raised, allocated and managed, are the main avenue through which governments channel resources for carrying out their functions, including poverty reduction. Conflicting choices have to be made between giving priority to economic infrastructure or to social services. Sequencing factors also need to be taken into account, as some interventions may yield higher returns in the short term.

The fundamental objectives of sound PEM systems include: (1) securing aggregate fiscal discipline – especially that outcomes for budget deficits and aggregate expenditures are close to the projections made in the approved budget; (2) allocating resources to sectoral programs; and (3) efficient use of resources in attaining the objectives of expenditure programs (Lienert & Sarraf, 2001, p. 3)

Lienert and Sarraf also point out that a good PEM system is one that has the most satisfactory institutional arrangements to attain the best results relative to the above objectives. In this regard, important institutional factors include:

- a clear legislative basis for budgeting, with easy-to-apply rules that are fully adhered to;
- a coherent macroeconomic and budget framework, appropriately classified;
- a comprehensive budget;
- a powerful central ministry to ensure budget discipline, including accurate costing of expenditure activities;
- formal constraints on budget deficits and expenditures;
- adequate technical capacity in parliamentary committees, central agencies of the executive, and spending ministries, including the capability to compare the costs of

competing expenditure policies;
- an effective accounting system that produces timely and quality fiscal reports;
- functioning audit arrangements to ensure compliance to financial regulations and effective management by spending ministries;
- mechanisms for handling uncertainty and economic shocks such as shortfalls in revenues, grants or other financing, or unexpected expenditure pressures;
- civil service salaries that are adequate to retain skilled staff (especially of budget managers, accountants, etc.) (Lienert & Sarraf, p.4)

A good PEM system also requires fully satisfactory accountability and transparency arrangements, particularly those that emphasize clarity of roles; public availability of budget information; open budget preparation, execution, and reporting; and independent assurances of integrity (Lienert & Sarraf, p.4).

2. Medium-Term Expenditure Framework (MTEF)

2.1 The MTEF Concept

The Medium Term Expenditure Framework (MTEF) is increasingly becoming a key component of PEM systems in developing countries especially in Africa. As Le Houerou and Taliercio (2002) point out, "(m)ore and more, MTEFs are considered the *sine qua non* of good PEM.

The MTEF is a tool for linking policy, planning and budgeting over a medium-term (usually 3 years); it consists of a top-down resource envelope and a bottom-up estimation of the current and medium-term costs of existing policies; and it involves rolling over this exercise each year to reflect shifts in policy. The framework matches these in the context of the annual budget process.

The MTEF provides the "linking framework" that allows expenditures to be "driven by policy priorities and disciplined by budget realities". If the problem is that policy making, planning, and budgeting are disconnected, then a potential solution is an MTEF. Given that "this disconnect between policy making, planning, and budgetary processes is a common condition of developing country governance, the MTEF has increasingly come to be regarded as a central element of PEM reform programs (Le Houerou & Taliercio 2002, p.4).

There is sufficient evidence already to show that if successfully applied, the MTEF can:

- Improve a country's macroeconomic balance by developing a multi-year resource framework;
- Assist in improving resource allocation between and across sectors; and
- Improve predictability of funding for line ministries.

Some common misconceptions of the MTEF include the following:

- The MTEF will facilitate sound budget planning only if given credible policy choices;
- The link between inputs and outputs may remain unclear; and
- The MTEF will not increase accountability (i.e. how resources are spent).

A useful checklist when a country is considering the introduction of the MTEF should include the following questions:

Does the country have reasonable three-year projections of expenditures and revenues?

- Is the bottom-up exercise of three-year cost projections (capital and recurrent; program and sub-program costs) feasible?
- If capacity does not exist, is there a sequenced process of building it?
- What country preparations are needed before a MTEF can be successfully adopted?
- Will the MTEF solve all service delivery problems?

One country example that highlights the importance of the checklist is **Ethiopia**. Ethiopia, the second largest country in Africa (after Nigeria), has limited technical capacity as is the case in most sub-Saharan African countries. A federal country with 11 provinces, it does not have a plentiful supply of planners, accountants, and budgeting experts especially at the provincial level. As a result, most provincial governments are unable to plan one year ahead, much less implement a MTEF. Currently, there is no possible way to support MTEF concepts in most of the provinces. At the federal level, some progress has been made in budgetary planning particularly in the area of the capital budget, but little work has been done to get a medium-term perspective for recurrent spending.

An important point is that the MTEF is probably not suitable for all countries. Nevertheless, some proponents of the MTEF consider that governments must have an MTEF to have a decent annual budget.

Moreover, it should be borne in mind that the MTEF, which focuses on budget formulation issues (in a multi-year macro/fiscal framework), is a subset of basic PEM reforms. The MTEF does not address issues of budget execution or reporting; nor does it cover all relevant budget formulation issues such as budget comprehensiveness (Le Houerou & Taliercio, 2002, p.4).

It has to be accepted that the MTEF is initially very difficult to implement and one must be prepared for countries to make mistakes. In **Ghana**, for example, the MTEF was striking because it originally existed as an external exercise grafted onto the system. When the country faced a large trade adjustment, the annual budget was quickly overtaken and hence the MTEF; this had a very negative impact on the credibility of the MTEF for line ministries. Therefore one lesson might be that if a country cannot adhere to an annual budget, it should be wary of putting too much emphasis on developing a MTEF.

Six features important to the implementation of an MTEF are the following:

- It should not be effected without a clear statement of fiscal policy;
- An objective macroeconomic framework is necessary;
- It requires spending estimates for years two and three;
- Estimates should receive “formal” status;
- Out-years have to be limited by a top-down constraint; and
- Out-years for years two and three should ideally create a hard budget constraint.

Many countries incorrectly implement certain components of the MTEF, because of failure to take account of one or all of the following:

- An objective macroeconomic assessment;
- Cyclical factors;
- A sensible time horizon;
- Inflation;
- Distinction between existing and new policies; and
- Planning reserves.

The preconditions for beginning a MTEF include: macroeconomic stability; a stable resource envelope; commitment from the government early in the MTEF cycle; core capacity of the finance ministry and central agencies; and supportive donor behaviour. Other conditions need to be in place to enable progress, such as capacity to enforce a hard budget constraint at the sector/ministry level (systems capacity and political will); executive commitment to having a more transparent budget process; capacity in sector policy analysis and expenditure planning; and continued donor support.

Le Houerou and Taliercio (2002) point out that there are two potential risks one might encounter in moving from the realm of the conceptual to the operational. The first is trying to implement the concept of the MTEF as a single reform, when in fact it is a set of many inter-related reforms. The number, nature, and sequencing of MTEF component reforms would have to depend on the specific conditions of the country in question. The other risk is in thinking of the MTEF as a separate package of reforms in isolation from other basic budgetary reforms. Since an MTEF focuses principally on budget formulation issues, it is by definition a limited reform. Key issues of budget execution and reporting would have to be addressed by other reforms (Le Houerou & Taliercio, p.5).

Le Houerou and Taliercio argue that these two potential risks raise the issue of reform sequencing. Given that the MTEF is a multi-component reform in practice, and most countries could not implement all reforms at once, how should reforms be sequenced? And given that the MTEF does not address every important budgetary issue, how should the MTEF be integrated into the larger PEM reform program? On this point le Houerou and Taliercio quote from the World Bank's PEM Handbook which states: "There is no single way to approach the sequencing of reform. There are too many factors that influence sequencing, notably the extent to which the basics in place, the particular set of institutional arrangements, and the sources of supporting and opposing reform" (Le Houerou & Taliercio, 2002, p.5).

Le Houerou and Taliercio further argue that it is essential to have a MTEF for there to be any resource predictability. However, If the country is prone to shocks, then setting up a highly elaborate MTEF process is not recommended. It was very important therefore to consider design when implementing a MTEF. Ghana may be an example of where donors have tried to go too far too fast.

Another crucial point related to donor support and the MTEF. General budget support is compatible with the MTEF, but project funding is probably not, because of the lack of certainty associated with it.

As Le Houerou and Taliercio (2002) show, the middle to late 1990s saw the proliferation of MTEFs throughout the developing world. This trend was particularly pronounced in Africa, which accounted for over half (52%) of the existing MTEFs in the developing world. About half of the African MTEFs, including the most prominent ones, were adopted over the 1992-1997 period.

Le Houerou and Taliercio also point out that MTEFs are receiving renewed attention in the context of the formulation of Poverty Reduction Strategy Papers (PRSPs), which have in the MTEF an ideal vehicle for actually incorporating them into public expenditure management programs within a coherent macroeconomic, fiscal and sectoral framework.

According to the World Bank's Public Expenditure Management Handbook (1998), "The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs and available resources in the context of the annual budget process". The "top-down resource envelope" is fundamentally a macroeconomic model that indicates fiscal targets and estimates revenues and expenditures, including government financial obligations and high cost government-wide programs such as civil service reform. To complement the macroeconomic model, the sectors engage in "bottom-up" reviews that begin by scrutinizing sector policies and activities (similar to the zero-based budgeting approach) with an eye toward optimizing intra-sectoral allocations.

Table 1.1: The Six Stages of a Comprehensive MTEF

STAGE	CHARACTERSTICS
I. Development of Macroeconomic/Fiscal Framework	Macroeconomic model that projects revenues and expenditure in the medium term (multi-year)
II. Development of Sectoral Programs	Agreement on sector objectives, outputs, and activities Review and development of program and sub-programs Program cost estimation
III. Development of Sectoral Expenditure Frameworks	Analysis of inter- and intra-sectoral trade-offs Consensus-building on strategic resource allocation
IV. Definition of Sector Resource	Setting medium term sector budget ceilings (cabinet approval)
V. Preparation of Sectoral Budgets	Medium term sectoral programs based on budget ceilings
VI. Final Political Approval	Presentation of budget estimates to cabinet and parliament for approval

Source: PEM Handbook (World Bank, 1998)

Le Houroue and Taliercio (2002) show that the value added of the MTEF approach comes from integrating the top-down resource envelope with the bottom-up sector programs. It is at Stage III that the policy making, planning, and budgeting processes are joined. Once the strategic expenditure framework is developed, the government defines the sectoral resource allocations, which are then used by the sectors to finalize their programs and budgets. Key to the sectoral review process is the notion that within the broad strategic expenditure framework, which reflects the resource constraint as well as government policy, sectors have autonomy to manage by making decisions that maximize technical outcomes like efficiency and effectiveness.

Once the MTEF has been developed it is "rolling" in the sense that the first outward year's estimates become the basis for the subsequent year's budget, once changes in economic conditions and policies are taken into account. The integration of the top-down envelope with bottom-up sector programs occurs by means of a formal decision making process. As the Handbook (1998:34) suggests, "Key to increasing predictability and strengthening the links between policy, planning, and budgeting is an effective forum at the centre of government and associated institutional mechanisms that facilitate the making and enforcement of strategic resource allocation decisions" (p.3).

Le Houerou and Taliercio (2002) point out that the MTEF is intended to facilitate a number of important outcomes: greater macroeconomic balance; improved inter- and intra-sectoral resource allocation; greater budgetary predictability for line ministries; and more efficient use of public monies. Improved macroeconomic balance, including fiscal discipline, is attained through good estimates of the available resource envelope, which are then used to make budgets that fit squarely within the envelope. MTEFs aim to improve inter- and intra-sectoral resource allocation by effectively prioritizing all expenditures (on the basis of the government's socio-economic program) and dedicating resources only to the most important ones (p. 4).

A further objective of the MTEF is greater budgetary predictability, which "is expected as a result of commitment to more credible sectoral budget ceilings. Moreover, to the extent that budgetary decision making is more legitimate, greater political accountability for expenditure outcomes should also ensue". The MTEF also attempts to make public expenditures more efficient and effective, essentially by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed-upon policies and programs.

2.2 The Le Houerou-Taliercio MTEF Typology

Le Houerou and Taliercio (2002) have developed a useful typology "to help reformers think about operationalizing MTEFs". They suggest three design dimensions: general, technical, and organizational (Table 2). The four general design features are: scope, format, government levels, and length of period. The two technical features encompass the macroeconomic/fiscal (MFF) and sector expenditure frameworks (SEF). The four organizational features are: status in budget process, management structure, dissemination, and oversight. Taken together, these ten design features define an MTEF in operational terms. Table 2 provides details on the key elements defining each design feature.

Table 1.2 Operationalizing MTEFs: Key design Dimensions, Features, and Elements

Dimensions	Design Feature	Key Elements
General	**Scope** **Format**	• **Sectors included** • **Type of expenditure included (recurrent and/or capital)**
	Government Levels	• **Level of government encompassed (central, regional, and/or local)**
	Length of Period	• **Number of years (including budget year)**
Technical	**MFF**	• **Basis for framework (type of quantitative model)** • **Content of framework (projections, targets, aggregate and sectoral ceilings, etc)**
	SEF	• **Inclusion of policy framework and strategy** • **Type of costings of existing and proposed**

		programs (level of detail)
Organizational	**Status in Budget Process**	• **Fit in budget process (form and date of inclusion in annual process)** • **Approval/authorization process**
	Management Structure	• **Central and sectoral agencies' roles** • **Organizational location of MTEF management** • **Introduction of reform** • **Civil society input into process**
	Dissemination	• **Method and form of dissemination internally and externally (formality)**
	Oversight and Support	• **Oversight of sectors by central ministries (intra-sectoral allocations)** • **Level of sectoral autonomy** • **Oversight of central ministries by sectors (sectoral allocations, disbursements, etc.)** • **Training support**

Source: Le Houerou & Taliercio, 2002

The following sections drawn from Le Houerou & Taliercio (2002) show the extent to which the features described in Table 2 are displayed in the design of MTEFs in a sample of African countries.

(a) General Design Features

Le Houerou & Talciero find that there is a high level of convergence around the general MTEF design features in the Africa region. There are also, however, some interesting differences. Of the four general design categories, MTEF **coverage** shows the most variation. In their sample, five countries cover all sectors in the MTEF, while four countries include only priority sectors. In the authors' view, this is the element that defines whether an MTEF is a "whole of government" reform or only a "priority sector" reform.

The authors make a strong case for the MTEF being a "whole of government reform" as this "could have implications for whether the MTEF is useful in controlling aggregate spending and the fiscal deficit" (p.9). The benefits of including all sectors are clearly a more comprehensive MTEF, as compared with the subset approach. The costs of including all sectors, in terms of capacity, however, are also higher.

Le Houerou & Taliercio show further that the other design dimension that shows a great deal of divergence concerns the inclusion of capital and recurrent expenditures. Four countries have MTEFs that include both capital and recurrent expenditures (though not necessarily foreign aid), while the others either include mostly recurrent, or include both, but have separate capital budgets. To the extent that capital expenditures are excluded from the MTEF, the instrument's coverage, in the authors' view, is seriously limited. In many cases the exclusion of capital expenditures is linked to the difficulty of including donor funding in the budget process. However, given the exclusion of the capital budget, the MTEF becomes a much weaker tool and will have much less of an impact on reallocation of resources.

Regarding the **format** dimension, Le Hourerou and Taliercio show that there is much more convergence. Nearly all countries utilize both economic and functional classifications (the number of functional categories ranges from eight to fourteen in practice). Though most MTEFs use a functional classification, the categories in many cases are so highly aggregated that little information can be gleaned on intra-sectoral resource allocations, which would suggest that MTEFs currently focus more on inter-sectoral than intra-sectoral reallocation. This finding is supported by the fact that only a few cases present a detailed organizational expenditure classification, suggesting that MTEFS are currently focused on the more general level of sector than even the slightly less aggregated organizational level. Given this design, one should not expect African MTEFs to have much of an impact on intra-sectoral reallocation at this point. The implication is that existing MTEFs in Africa do not contribute to the amelioration of the third level of public expenditure management (the efficient and effective use of resources in the implementation phase) (p.10).

In terms of the **government** levels included in the MTEF, most countries focus exclusively on the central level. This is largely due to the centralized nature of public administration in this subset of SSA countries, which limits the applicability of MTEFs to the regional and local levels. Whether the MTEF should encompass subnational levels would depend on whether the appropriate level of administrative capacity exists or not.The authors' view is that it would seem that in many African countries decentralized MTEFs would not be a feasible option at this point.

The authors feel that with respect to **period length** there is also broad convergence. Most countries have three year MTEFs. The exception is Mozambique, which prepares forecasts for a six-year period. A longer period, as in the Mozambique case, might actually undermine the MTEF by reducing its credibility.

In summary, of the four general dimensions, scope shows the most divergence at the operational level. Many countries have found it difficult to include capital expenditures (including donor funding) in the MTEF and many have struggled with the proper scope of sector coverage, trying to balance capacity on the one hand with a "whole of government" approach on the other. There is considerably more convergence around the format, government levels, and period length dimensions (Le Houerou & Taliercio, p.11).

(b) Technical Design Features

In both technical dimensions (the MFF and SEF) there are points of convergence as well as divergence). There is a great deal of divergence around the technique used to develop the MFF. The following methods/sources are used: a CGE model, spreadsheet models, econometric models, and IMF financial programming projections.

Although all MTEFs provide both projections and expenditure ceilings in their MFFs, due to differences in the availability and quality of data and the technical capacity to run the models, the quality of MFFs varies by country (only three cases also include macroeconomic and fiscal targets).

Le Houerou and Taliercio show that with respect to the **SEFs** almost all incorporate some sectoral strategy, including objectives, activities, and outputs (**Kenya**, which does not include sectoral strategies in the MTEF, does include them in the PRSP). In terms of sector program costings, however, there is a high variance in quantity and quality. First, there is no case in which all sectoral costings are of uniform quality. In fact, there is only one case in which costings are standardized (South Africa). Moreover, only a subset of cases produce costings with data on programs or activities, and, of those, many are at a very aggregate level (for example, the Mozambique health sector costs only three programs: "improving health service provision quality, improving health institutions, and developing human resources") and some only include recurrent costs. In practice, then, even in countries with nominally comprehensive coverage, only a subset of sectors actually produces costings. The authors conclude that "de facto, most MTEFs in Africa are only partial MTEFs" (p.12).

In this regard Le Houerou and Taliercio conclude that there are incremental but important differences between MTEFs along the technical design dimension. The bases for making projections vary from "back of the envelope" calculations to CGE models, while costings are typically partial and not nearly disaggregated enough to the program/activity level. While South Africa is ranked as having all the desirable technical characteristics, Mozambique is ranked as having only a few (p.12).

(c) Organizational Design Features

Le Houerou and Taliercio find that only five MTEFs are integrated in a meaningful way into the budget process. Thus the charge that MTEFs are "parallel" exercises finds some support in the cases (p.13). In terms of political approval, only a few countries (in this sample) submit their MTEFs to both cabinet and parliament for approval. It would seem that high-level political approval would greatly increase the MTEF's chances of effecting change. In fact the authors feel that it would mean even more if cabinet were involved in making the difficult trade-offs required during the MTEF process. In two cases, the Ministry of Finance promulgates the MTEF without recourse to higher political approval. In the countries in which the MTEF is only issued by the MoF, the authors feel that the MTEF remains a MoF technical document rather than a strategic framework.

There is also a high level of divergence of practice around the management of MTEFs. In five countries, MoFs manage MTEFs directly, while in the other four cases, other management structures are utilized. In other cases, other stakeholders are involved. In Tanzania, for example, the PER working group, which includes broad governmental and civil society representation, supports the MoF's management of the MTEF. Kenya has an MTEF secretariat while in South Africa multiple stakeholders play important roles.

In terms of the mode of **sectoral participation**, there is further divergence. In five countries, sectors alone prepare their SEFs, while in four countries sector working groups, composed of sector specialists, MoF officials, and civil society representatives (in some cases), work together to prepare SEFs. The working group approach allows the MoF to participate in drafting the SEFs and also provides the sectors with more technical resources from outside government.

Civil society representatives formally play a role in only two of the African cases (Uganda and Tanzania). The MTEF is presented to the PER working group in Tanzania, the effect of which is to generate debate about the government's strategy and funding plans. In South Africa, the MTEF is submitted to parliament before the budget and is intended to generate discussion and debate about the government's program. However, most African countries do not view civil society participation as central to the MTEF, even though it might facilitate greater accountability (Le Houerou & Taliercio, p. 14).

With respect to oversight mechanisms, most MTEFs fare poorly. Only one country makes significant use of performance agreements (Ghana) and only three use sectoral performance indicators or targets. Even in these cases, the extent to which these performance measures are used in practice is uneven. Perhaps because of poor oversight mechanisms, few cases are characterized by any sectoral autonomy (South Africa, Tanzania, and Ghana are the exceptions). Sector managers thus have little ability to improve intra-sectoral allocations beyond the budget allocations. This reinforces the finding that MTEFs are not currently used to tackle third level expenditure management problems.

A great deal of variance exists between the cases along the organizational dimension. Uganda and South Africa come close to having a comprehensive organizational design, while Mozambique and Malawi fall short of the mark.

Le Houerou and Taliercio (2002) show that MTEFs can be characterized by three levels of development: basic/preliminary, intermediate, and comprehensive. According to the ratings, the most comprehensive MTEFs are Uganda and South Africa. An intermediate group of MTEFs cluster around mid-range: Tanzania, Kenya, and Ghana. The less developed group at the low end of the scale consists of Malawi, Guinea, Rwanda, and Mozambique. While Uganda and South Africa are relatively close to having fully operational MTEFs, the majority of countries examined (more than three quarters) are quite far from successfully implementing MTEF reforms.

The authors then attempt to situate these findings on the development of MTEFs in the wider context of PEM reforms. They quote from a report on the quality of budget management in HIPC countries (World Bank/IMF, 2001), which showed that 22 out of 25 countries reviewed required “some” or “substantial upgrading” of their budget systems. With the exception of Uganda, five out of the six countries (Uganda, Guinea, Malawi, Mozambique, Rwanda, and Tanzania) reviewed in both the HIPC report and the Le Houerou and Taliercio paper, require some or substantial upgrading. Furthermore, the aspects of budget management most widely in need of upgrading were the quality of multi-year projections, budget execution, and auditing.

The common findings of both papers can be summarized as follows:

- It confirms that MTEF implementation is problematic.
- It indicates that many countries which are launching MTEFs are doing so in the context of weak basic PEM systems, especially in the areas of execution and auditing. The picture that emerges is one in which weakly developed MTEFs are being grafted onto poorly performing PEM systems. These characteristics will undoubtedly have implications for the ability of MTEFs to attain their stated objectives.

2.3 Measuring the Impact of PEM/MTEF Reforms

The authors then attempt to measure the impact of PEM/MTEF reforms in a sample of African countries (Kenya, Tanzania, Ghana, South Africa, and Uganda). The key indicators examined here were the following:

- Macroeconomic balance and fiscal discipline;

- Resource allocation;
- Budget predictability; and
- Political accountability.

(a) Macroeconomic Balance and Fiscal Discipline

Fiscal balance (including grants) is used here as a proxy for fiscal discipline. A pre- and post-MTEF comparison was done for the four most developed MTEFs in the region. While both South Africa and Tanzania showed somewhat smaller fiscal deficits in the post-MTEF periods, the difference was not very significant when compared with the pre-MTEF period. The data provided no support for a link between the MTEF and reduced fiscal deficits.

Table 3: Fiscal Deficit as percentage of GDP (including grants), 1985-2000

Country	Pre-MTEF	Post-MTEF
Uganda	-6.39	-7.38
South Africa	-5.23	-4.57
Ghana	-7.11	-7.95
Tanzania	-4.02	-2.93

Source: Le Houerou & Taliercio, 2002

The authors concede that the analysis is simplistic as it did not control for other causal factors, such as unforeseen macroeconomic shocks, adjustments, or fluctuations in debt payments that might have undermined the MTEF. At the same time the analysis did not take into account potentially significant trends associated with the MTEF. In Uganda, for example, others have argued that the MTEF has been successful in attaining macroeconomic stability. It has also been shown that expenditures were carefully matched to revenues in order to manage the fiscal deficit prudently. However, they conclude that "while a more comprehensive analysis must be done, the preliminary results do not support the contention that these MTEFs, which are the most developed in Africa, are associated with greater fiscal discipline" (p.18).

(b) Resource Allocation

The cases do provide some limited support for the hypothesis that MTEFs are associated with reallocations of resources to government priorities, e.g. increased expenditure on social services. However, it is not clear that the increased social share should be attributed to the MTEF. It might be that the same factor that "caused" the MTEF might also be responsible for increasing social sector allocations.

The authors suggest that South Africa's MTEF fares somewhat better with a significant reallocation taking place towards the national priority sectors as identified in the MTEF. Also impressive has been the link between budgets and MTEF projections. In that country the MTEF turns out to be quite a reliable guide to budget outturns, at least at the broad sectoral level.

The Le Houerou-Taliercio analysis shows that MTEFs are associated with some level of sectoral reallocation, as evidenced by data from Tanzania, Uganda and South Africa, the three most comprehensive MTEFs in the region. The reallocation, however, is partial. It seems that while the MTEF as a whole is not associated with the promised "whole of government" reallocations, or even reallocations to all priority sectors, it is associated with some reallocation to a subset of sectors (education in Uganda, health and justice in South Africa, social services in Tanzania). The authors note that it might be that these MTEFS are only associated with reallocations to top priority sectors, which would suggest a much narrower scope for the MTEF in practice than envisioned at present. Moreover, in Ghana, an “intermediate MTEF”, there is no evidence of resource allocation in line with the MTEF’s prescriptions (p.21).

(c) Budget Predictability

An additional objective of MTEFs is to deliver greater budget predictability in terms of the match between budget execution results and approved budgets and MTEF projections. A useful indicator for assessing the match between execution and formulation is the budget deviation index (BDI), which is the sum of the absolute values of the differences between the approved budget and the executed budget expressed as a percentage of the approved budget (Le Houerou & Taliercio, p.21).

This comparison of means does not provide evidence that MTEFs deliver greater budgetary predictability (and less deviation). The Ugandan and Tanzanian cases, among those with more developed MTEFs, demonstrate a continued breach between budget formulation and execution. The authors concede “though it would be unwise to speculate based on these two cases, there is little cause to be sanguine about the effect of MTEFs on budget predictability in the less developed MTEF cases (p.22).

(d) Greater Political Accountability for Public Expenditure Outcomes

Le Houerou and Taliercio argue that as a result of the MTEF, the budgetary decision making process should become more accountable, legitimate, and credible. Political accountability should increase at both the political and managerial levels through greater transparency. At the same time sectoral managers may also be held more accountable to produce results because their intra-sectoral priorities and resources are well specified in the context of the MTEF. As the authors state, “In essence, the MTEF should put numbers ‘on the table’ in a way that allows for greater scrutiny by civil society and the private sector” (p.22). Furthermore, the MTEF should yield greater legitimacy to the PEM process by facilitating cooperative and consensus-based decision-making.

Based on the cases, a preliminary assessment of the impact of MTEFs on accountability is undertaken. One basic indicator of accountability is whether the MTEF is published and made available to the public. The authors state that MTEFs are published in Uganda, South Africa, Tanzania, Ghana and Kenya. Publication of the MTEF brings with it the possibility that civil society would play a greater role in the PEM process. In countries such as South Africa and Kenya, where the MTEF must be approved by parliament, the MTEF’s profile is raised considerably.

In Tanzania, the PER Consultative Meetings, the minutes of which are published with the PER, has provided an excellent forum for discussion and debate of resource allocation issues. Participants have observed that some sectors and sub-sectors are not given the proper “weight” and that other sectors are not given proper priority status. The MTEF has therefore fostered transparency and has generated calls for greater transparency.

The authors note that there is some anecdotal evidence that publication and dissemination of MTEFs have led to greater civil society involvement in PEM issues. The MTEF seems to be providing a mechanism for taking civil society perspectives into account. In some countries, including South Africa, Kenya, and Tanzania, the MTEF is clearly raising expectations.

Le Houerou and Taliercio point to the fact that the PEM process also becomes more accountable when technical, professional expertise is brought to bear on it. In countries such as Tanzania and South Africa, the working groups that produce the MTEF include civil society representatives, some of whom are experts in their fields. Opening up the decision making process to experts has the potential to make it more accountable to professional criteria and less responsive to political calculations. There is some indication that MTEFs, if designed properly, may be successful in building some pressure for greater accountability in the PEM process (p.23).

In summary, the limited quantitative evidence shows, thus far, that MTEFs are not yet unambiguously associated with their objectives (see Table 4). In terms of macroeconomic balance, with the possible exception of Uganda and South Africa, there is no evidence that MTEFs have made a significant impact. In terms of resource allocation, there is some limited and qualified evidence to suggest that MTEFs are linked to reallocations to a subset of priority sectors. With respect to budgetary predictability and consistency, there is no support for the assumption that MTEFs are associated with greater discipline and less deviation. At best, then, these cases present a mixed picture (Le Houerou & Taliercio, pp. 24-5).

Table 4: Summary of Preliminary Impact Assessment of MTEF Reforms in Africa

Expected Outcomes	Actual Outcomes
Improved macroeconomic balance	No clear evidence of improved macroeconomic balance
Better inter- and intra-sectoral resource allocation	Some limited empirical evidence that MTEFs are associated with reallocations to subsets of priority sectors
Greater budgetary predictability for line ministries	No empirical evidence of link between MTEFs and greater budgetary predictability
More efficient use of public monies	No evidence that MTEFs are developed enough to generate efficiency gains in sectoral spending

However, the authors point out that there are a number of possible explanations that might mitigate the weak performance to date. For one, MTEFs in Africa are still relatively young, as major reforms go. It may be that this type of comprehensive PEM reform needs to be developed over the long term. If that is the case, it would be premature to judge any of these MTEFs, except possibly Uganda and South Africa. However, the Ugandan MTEF, which is the oldest, does not reveal a one-to-one correlation between impact and longevity. The Ugandan case does present some favourable trends, however, which, if they continue, will put the MTEF in a better light. The Ugandan case might also suggest the tentative hypothesis that MTEF reforms take a minimum of a dozen years (p.25).

Second, the apparent lack of progress evident in these cases should not necessarily be attributed to problems with the MTEF. Many other and varied exogenous factors, from economic crises to natural disasters, could bear some responsibility. In other words, the picture is much more complex (Le Houerou & Taliercio, 2002).

Third, and most importantly, because the data are limited and incomplete, the authors state their assessment should be regarded as preliminary. A much more systematic, comprehensive analysis, controlling for other factors, would have to be undertaken before solid conclusions could be drawn. However, their conclusion is that at the time of their analysis, the MTEF has not had an overwhelming impact on PEM in Africa (Le Houerou & Taliercio, 2002).

3. Public Expenditure Management: The Challenge of Coordination

A seminar held in 2005 by the Collaborative African Budget Reform Initiative (CABRI, 2006) discussed inter alia, the challenge of coordination in PEM. This seminar demonstrated that budgeting in the public sector is an inherently complex and fragmented exercise. In even the most straightforward system, where the budget is primarily a financial plan for a centralized government, funded from predictable own resources and paying for public goods and services delivered by a civil service in government line departments, managing the government budget is not a straightforward exercise (CABRI, 2006). It still involves the combination of multiple information sources, different perspectives and diverse interest groups, all influencing complex decisions (CABRI, 2006:2).

As economies become more complex, the demands on budget management tools and processes have increased. Modern budget management systems now have to cope with multiple layers of government and their complex financing arrangements, sophisticated financing instruments, multiple delivery modalities and an environment where the distinction between public and private is increasingly blurred. At the same time, the demands on the budget in terms of public management have increased. From being seen primarily as the tool to deliver on government's financial objectives and ensure accountability, the budget is now at the centre of translating a country's development goals into results (CABRI, 2006: 2-3).

Adding to the complexity of PEM in many African countries is the tension that arises from separating national responsibility for planning and budgeting between two ministries or amalgamating them into one ministry. In Malawi, Kenya and Mozambique, for example, both joined-up and separate ministries have been in place. While the benefits of a merged institution are better coordination and easier linkage between planning and budgeting, the costs include little attention to long-term strategic planning and investment issues. In either case, amalgamation or separation is often driven by political purposes with little, or even dysfunctional, change in the underlying allocation of roles and responsibilities (CABRI, 2005).

In Senegal, on the other hand, the issue is not so much about one or two ministries, but rather about whether the budget process ensures that coordination between planning and budgeting functions is maximized. According to CABRI (2006), Senegal emphasizes the need for a robust legal framework to underlie procedures, rules and systems. As in other countries, the management of budgets has been undermined by lack of capacity in line ministries to link planning and budgeting (e.g. through proper costing practices), fragmentation between the systems that manage donor resources and domestic resources and lack of discipline in budget execution. Recent reforms regarding donor coordination and alignment, and budget and finance management systems, have sought to address these problems.

Another problem highlighted by CABRI is the coordination of recurrent and investment spending. The case studies of Tanzania and Malawi, on central planning and budgeting institutions, illustrated well how a single budget process anchored in clear policy directives and a single classification system could overcome some of the difficulties posed by having separate investment and recurrent budgets (pp.5-6).

In the CABRI seminar, Mozambique demonstrated the difficulties associated with large development partner involvement. Since 1997, with the passing of the law on the budget, there has been a single budget in Mozambique. Although recurrent spending is the responsibility of the Ministry of Finance and investment projects fall under the Ministry of Planning and Development, the two are brought together in a single budget, which is prepared by a single directorate (p.6).

Nevertheless, matters are complicated by sectors where significant off-budget development partner expenditure occurs. Here, different classification systems generate problems; it is difficult to get a transparent view of what investment is required in a sector when a comprehensive picture of existing spending is not available (p.6).

It was evident from the presentations made at the CABRI seminar that development partners could play a role in lack of coordination. However, their interests are often negotiated at a sector level, without reference to a national set of priorities. At the central level, however, donor commitment to coordination and alignment has brought some consistency and transparency into policy planning and budgeting. The lack of an amalgamated investment budget (or a clear perspective on the total number of projects undertaken) still means that as the number of projects increase, coordination between them becomes more complex and it is difficult to ascertain whether they are sustainable in aggregate. Investment spending is not always based on medium- to long-term resource availability. The introduction of decentralization of spending to provincial and local governments is likely to add to this complexity (p.6).

The Mozambique situation also emphasized the importance of having an explicit, national policy framework within which sectoral policies can be defined and against which the desirability of individual spending demands can be judged.

The CABRI (2005) seminar also discussed the purposes and requirements of a classification system. In the view presented at the seminar. The purposes of a good classification system included linking different information sets and phases of the budget process together to improve service delivery. Good data was seen as crucial for policy-making processes, as well as for control and accountability purposes. The point was made that a classification system should also be designed with international standardization in mind to allow country compliance with data dissemination standards and international comparisons. Key features of a model classification included the need to have a multi-dimensional system, coverage of the full general government account, and linked information across the full accountability cycle (CABRI, 2005: 6-7).

The CABRI seminar also discussed the South African case which showed clearly that the design of a good architecture was not sufficient; it needed to be combined with a process of change management to migrate all institutions of government across to the new system. Important lessons from the South African experience included the following: System designers must first understand the information demands of country-specific decision-making processes, and these should determine the structure of the system. There was often a mismatch between what accountants require on the financial management side and what economists require on the budgeting side; both needed to be included in the chart of accounts. Care should be taken to strike a balance between necessary detail and appropriately aggregated information in developing the system. Finally, it takes a few years of implementation and capacity-building work before a new chart of accounts can produce quality information. Similarly, the introduction of a financial management information system would not solve budget execution problems unless it is backed by reforms in business processes.

In summary, it was evident that a key component of an effective budgeting process was good coordination at the centre to ensure an optimally structured budget decision-making process. In many countries this includes not only the arrangements of different institutional structures, the allocations of decision-making powers and the sequencing of information flows that might affect budget policy cohesiveness, but also coordination between the recurrent and development budgets to ensure that both address the same national policy objectives (CABRI, 2005).

4. Are weaknesses in budget management in Africa linked to inherited systems?

In an excellent paper, Lienert and Sarraf (2001) consider whether the disappointing budgetary performance in Africa is due to weaknesses in the inherited British system, other external influences, or domestic developments. They find that all three factors have played a role in the problems associated with budget management systems in Anglophone Africa. They argue that reforms in institutional arrangements are needed, especially in budget execution. They conclude that technical reforms will be ineffective unless there are changes to enhance accountability, improve governance, and increase compliance.

Lienert and Sarraf (2001) find that the public expenditure management (PEM) systems of Anglophone African countries have a number of weaknesses in both budget preparation and budget execution. In several countries spending has taken place without budget authority, commitments have been made but cash has not been available for payment, data in accounting ledgers and monthly reports have not been maintained, and long delays have been experienced in preparing and auditing the annual accounts of government.

Lienert and Sarraf (2001) also show that because of such weaknesses, budgetary performance has been disappointing. Over the past 20 years or so, planned budget deficits have often been exceeded, for four main reasons: 1) revenue projections have been optimistic, and as a result, budgeted expenditure programs have been predicated on revenues that did not materialize; 2) specific expenditures in the annual budget have been under-budgeted for certain items, especially government purchases of utilities such as telephone, electricity, and water; 3) expenditure control has been poor, leading to domestic expenditure arrears; and 4) there is a general lack of budget discipline.

They conclude that these developments could be attributed to some combination of: 1) the inherited British system; 2) other external influences, notably those coming from the international financial community, or 3) the manner in which PEM systems have evolved and are operated in these countries.

One factor responsible for the poor development of PEM systems in Anglophone Africa was the absence of the necessary preconditions for successful implantation of the British PEM system. According to Lienert & Sarraf (2001) two such preconditions usually did not exist in Anglophone Africa:

Well-functioning institutions that followed clearly specified rules. African countries did not rely on a functioning Parliament, an effective external Audit Office, and responsible spending ministries that were capable of managing the budget according to well-defined rules.
Macroeconomic and revenue stability. Terms of trade fluctuations and revenue collections in sub-Saharan Africa (SSA) proved to be volatile, making it difficult to introduce greater stability in expenditure planning (p.7)

The inherited British budgeting system was based on strong control by the legislative branch. At the same time, the executive branch established an adequate regulatory framework. Strong institutions were required for the system to function. However, in Anglophone Africa, the required institutional capacity was weak. In particular, Parliament did not participate fully in debating the executive's proposed budget. Also, the scope for the Auditor-General's office to monitor and recommend changes to the system was severely limited. Within the executive, the Ministry of Finance and the permanent secretaries of spending ministries were often under the control of a strong presidency.

Lienert and Sarraf argue that the centralization of powers in the executive has not been associated with the promotion of fiscal discipline. In many countries, discipline, accountability, and transparency is lacking at the various stages of the budget process.

In the view of some of the authors, some features of the inherited British budgeting system sowed the seeds for today's PEM problems, including: dual budgeting; extra-budgetary funds; classification systems that hinder economic analysis; and inappropriate use of public enterprises for budgetary purposes.

Lienert and Sarraf argue that PEM systems in Africa were also influenced by multilateral and bilateral donors. For example, the IMF encouraged the implementation of cash rationing schemes in the 1990s, as they allowed countries to attain macro-stability objectives. However, this was at the expense of ineffective delivery of public services. Under the influence of the World Bank and other donors, dual budgeting was not only tolerated, but actively promoted – by Public Investment Programs (PIPs) at the budget preparation stage and by separate donor accounts outside the consolidated fund for donor-financed development expenditures. They point out that although the international community provided technical assistance, reforms in PEM have not always been institutionalized.

Lienert and Sarraf show that the major problems in operating PEM systems "have been self-generated including: little adaptation of institutional arrangements, poor budget preparation, ineffective budget execution and audit arrangements. Reforms in these areas will require that government institutions perform their fundamental roles, in accordance with financial regulations" (p.10).

In their view technical changes in budget preparation and budget execution were needed. Concerning budget preparation, key actions that were needed included: introducing greater realism into annual budget projections, ending dual budgeting, extending budget coverage to include all off-budget activities, setting the budget in a medium-term framework, and eliminating abusive use of supplementary budgets. For budget implementation, the most pressing short-term needs included: monitoring and controlling expenditure commitments and arrears, strengthening internal controls within spending ministries, reducing reliance on arbitrarily-determined cash controls, and introducing and/or improving cash and debt management. Above all, accounting systems and fiscal reporting needed to be improved. This could be facilitated by developing integrated financial management information systems. (Lienert & Sarraf, p.22)

Furthermore, the speed and sequencing of the reforms needed to be adapted to individual country circumstances. In this context, care needed to be exercised to avoid a "high-technology" approach, especially if "fundamentals" were lacking. For example, developing MTEFs should not proceed until countries rectified inadequate accounting practices.

In addition, the strong powers accorded to the executive's central institutions could be used more effectively, including ensuring that: existing (or revamped) public finance laws and administrative laws were adhered to; those with delegated budget authority effectively carried out their responsibilities; and comprehensive and quality reports of budget developments were available to the public in a timely manner. This would require better dialogue with spending ministries, and upgrading staff materials for managing budget systems. It might also require restructuring the MoF, to distinguish clearly the roles and responsibilities of various departments. In sum, strong leadership and commitment to reform were essential (Lienert & Sarraf, p.22).

Lienert and Sarraf felt that the most important requisite was to establish a firm commitment to budget discipline. In this context, the capacity of existing institutional arrangements to introduce, maintain, and manage re-oriented systems required re-examination. On the side of the legislature, democratically-elected Parliaments would have to play a more prominent role in debating budget policies and the AG's office should be given scope for improving the effectiveness of budgetary procedures and policies.

Finally, changes in institutional arrangements for securing aggregate fiscal discipline and for reversing the misalignment between budget appropriations and cash budget outcomes would be ineffective unless they were accompanied by measures to enhance accountability and transparency at all levels of the budget process. In particular, sanctions should be applied on those contravening regulations, with the results being rendered public. Strong political will was required to re-impose the rule of law and counter corruption (p.24).

5. Public Expenditure Management and Poverty Reduction

Foster et al (2002) synthesize the key findings from case studies in five countries (Ghana, Malawi, Mozambique, Tanzania and Uganda), each of which examined how public PEM was linked to poverty reduction policy goals. The authors show that each of the case studies entered the 1990s with a pattern of public expenditure in which the efficiency and effectiveness of public expenditure was very low, and its benefits went mainly to the non-poor.

Foster et al note that in order for public expenditure to better serve the interests of the poor, political will to confront difficult choices was necessary, but not sufficient. It needed to be allied to more effective PEM; macroeconomic and budget stability, and budget systems that turn policy analysis into actual cash releases to implement the intended policies. This in turn had to be allied to reforms that brought the incentives facing those required to implement expenditure programmes more into line with the objectives of policy.

The authors note that "(T)here has been a welcome shift from donor-driven analytical agenda of stand-alone poverty assessments and public expenditures and sector reviews, towards embedding these analytical functions into government processes". The key government processes now were the overall MTEF, sector wide approaches, combining the efforts of government and donors, and the annual budget process itself. Amongst this sample, they believe that Uganda has been most successful in integrating donor analysis and donor commitments within its own planning and budget processes, though the main elements of the approach were also in place in Tanzania.

The authors identify four criteria or pre-conditions in the relationship between MTEFs, PEMs and poverty reduction and analyze the comparative African experience within this framework. These criteria were the following.

Serving the poor more effectively through public expenditure required a medium term process for budget allocation (to plan changes in strategic priorities), and a PEM capacity (to ensure they are executed). The failure to properly coordinate the planning and budgeting functions had been a fundamental weakness in Ghana, Malawi, Mozambique and Tanzania. They are of the view that it was "fundamental that plans (be) based on realistic resources and respected in budget release decisions". They also advocate a single Ministry to be more effective in combining these functions. The Mozambique and Malawi experience suggested that this required efforts to "move beyond a mere change in nomenclature to actually secure the necessary integration of functions".

The MTEF needed to focus on strategic priorities in the medium term. Uganda had done this by focusing attention on putting in place an effective central challenge function, with submissions from departments assessed against a small number of criteria. Analytical capacity for scrutiny had been built at the centre, while donor resources had also been drawn into preparation of medium term budget plans at sector level. This approach contrasted with the far less successful approach taken in Ghana and Malawi, where bottom-up activity-based budgeting “buried the centre in detail and served to obscure the strategic choices, which actually made it harder to identify priorities”.

Low-income countries were inevitably subject to the risk of resource shocks. In the authors’ view, there were however a number of good practice approaches which countries had developed in order to improve their ability to estimate the resources available for implementing the MTEF. Domestic revenue forecasts needed to take a cautious view of growth prospects and in particular should not assume administrative improvements in revenue collection until there was some evidence that revenue authority targets are being achieved in practice.

The MTEF should eventually become a comprehensive document covering all sources of revenue and all public sector expenditures. As shown earlier, coverage varied. In Uganda, increasing shares of donor funds were being committed to the budget, and reporting on projects outside the budget is fairly comprehensive. By contrast, in Mozambique, central government had very incomplete information on donor aid, while significant revenue resources were off-budget and not centrally reported, resulting in an MTEF which gave only a partial picture of total public expenditure. It was extremely important therefore that donors respected the MTEF disciplines, reporting their commitments and enabling their spending to be prioritized as part of the MTEF process.

It is important to recognize that in many African countries much of the PEM reform effort has been focused on efficient and effective rather than explicitly pro-poor use of public resources. Such reforms are critically important for long-term poverty reduction. Getting these basics in place – so that the government budgets on the basis of a clear and rational understanding of its role in the economy; PEM focuses on outcomes; and government has systems in place to ensure that money is spent as planned – is an essential precondition for government to be able to do anything significant for poverty reduction. Changes which reduce the prevalence of fundamental inefficiencies in PEM, and which deal with systematic corruption and lack of performance focus, are critical poverty reduction issues.

PART 2: CASE STUDIES

This part of the report reviews a number of country case studies. Three of the case studies were commissioned by ACBF and involved visits to these countries by the respective researchers. These countries were Ghana, Tanzania and South Africa. A planned visit to Botswana to complete this group of 'good practice' countries did not take place because of logistical difficulties.

This part also reports on five other case studies: Benin, Burkino Faso, Cameroon, Rwanda and Uganda with the information drawn from secondary sources.

6. GHANA

The impact of a sound PEM system can be assessed at three levels of outcomes: aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

Singh (2006) shows that at the aggregate level Ghana has been showing positive results with fiscal deficits on a downward trend (Budget deficit in 2005: 2% of GDP; 2004: 3.2% of GDP). Consistent interventions of international agencies through institutional reforms, general budget support (GBS), capacity building and realization by governments that aggregate fiscal control is a precondition for debt relief and increased aid has led to sustainable levels of fiscal discipline. Moreover, new generation policy makers who are better exposed to international economic and policy climates understand the nuances of fiscal and monetary instruments on development financing. They are able to critically analyze impacts on investment crowding, inflation and exchange rates.

Allocation of resources to priority sectors has also witnessed a change with goal oriented programs such as the Ghana Poverty Reduction Strategy (GPRS). Budgetary allocations to social sectors and other poverty related categories of spending have been increasing. Education and Health received a share of 17.4% and 12.8% respectively as a percentage of total expenditure in 2005. The allocations for budget estimates in 2006 followed the same trend.

However meaningful improvement in efficiency and effectiveness in the provision of public goods and services needs further thought. Tracking surveys such as theNational Expenditure Tracking System (NETS) show that performance of the system to deliver goods and services efficiently remains poor. Variation in budget estimates and actual figures is still a common feature

Progress even though slow is on track and has geared up in the last five years. On the revenue side, in the mid-1980s Ghana's domestic revenue share of GDP was below 6% of GDP, it is now over 20%. Statutory deadlines for the completion of accounts and financial statements are being met. Audit offices have been beneficiaries of capacity building. New procurement laws have been brought into existence but the supporting regulatory framework for enforcement is lacking. Partial improvements in legal frameworks on different issues for better PEM include public disclosure (RTI, 2003), internal audit (Internal Audit Act, 2003), and decentralization (Local Government Act, 1993, District Assemblies Common Fund Act, 1993).

6.1 Integrated Assessment of PEM Performance

In order to determine the extent to which reforms are yielding improved performance and to increase the ability to identify and learn from reform success, it is important to embark on an indicator led performance analysis. This would facilitate harmonization of government policy and donors intentions in the budget formulation and control exercise. Ghana's PEM can be evaluated on six core dimensions of PEM performance identified in the Performance Measurement Framework (Table 2.1).

Table 2.1: Evaluation Parameters and Ghana's Performance

Evaluation Parameter	Ghana's Performance
Credibility of the budget	The budget has considerable outturns susceptible to incorrect projections, lack of control in implementation and other international factors.
Comprehensiveness and transparency	Budget lacks comprehensiveness and transparency due to in inept institutional arrangements for documentation, procurement, public disclosure.
Policy-based budgeting	The budget is prepared with due regard to government policy but out year estimates need to have more functional significance.
Predictability and control in budget execution	The budget shows improvements in implementation and control procedures. Institutional arrangements for internal audit, performance management and disbursement of funds can be further fine tuned for better results.
Accounting, recording and reporting	Records and information available are not well circulated through all tiers for revision and expenditure tracking to meet decision-making control, management and reporting purposes. Timeliness as an issue has been worked on.
External scrutiny and audit	Arrangements for scrutiny of public finances and follow-up by the executive are operating but are feeble. Regulatory frameworks, capacity building and motivation issues need to be addressed.

In synthesizing the performance of the PEM system, the analysis aims at identifying the main PEM weaknesses and tries to capture the interdependence between the different dimensions, i.e. the extent to which poor performance of one of the core dimensions is likely to influence the performance of the PEM system in relation to the other dimensions.

6.2 Assessment of the Impact of PEM Weaknesses

The aim of this section is to assess the extent to which the current reforms in the PEM system constitute an enabling factor for achievement of the Ghana's developmental goals of poverty reduction. Taking a bottom up approach, Ghana needs to embark on an exercise of accelerating rural development, promoting industrial development and strengthening public administration through:

- Aligning policy to GPRS II;
- Infusing a strategic focus in developmental planning; and
- Linking field-based experiences in institutional development

PEM plays a key role in the vertical integration of these focused areas and the budget as a tool of PEM plays a strategic role. Thus, the identified weaknesses matter for the country's development agenda. Increasing the budget credibility by reducing variations and proper implementation would provide clarity on the availability of resources and expedite better allocation amongst competing developmental agendas. In order to reduce outturns, transparent and accountable execution machinery is imperative. Accurate recording, reporting and audit would point to the deviation from a planned course and avoid multi-directional and overlapping efforts for similar goals.

6.3 Prospects for Reform Planning and Implementation

Issues relating to institutional arrangements for a timely and adequate reform planning and implementation process are being addressed but their pace and timing lags behind. The legislative framework needs to be accompanied by speedy institutional mechanisms to reflect the change in the whole system. Ghana's reform process has shown limited results due to this gap between the legislative and institutional reform implementation. A conducive environment has been created for the birth of reform but its nurturing is often stranded through political, administrative and financial constraints.

Policy Environment

However, the main immediate obstacles to a more dynamic process of economic change is the policy environment – specifically, the absence of the conditions for doing business in a modern, competitive ways in a global economic system. The government is now working towards creating conditions for sustained and accelerated growth required to create a quantum of wealth that gives true meaning to government commitment to a property-owning democracy while reducing poverty. The strategies for accelerating the growth of the economy is to transform the underlying structure of the economy by focusing on high growth sectors of tourism, trade, information and communication technology, and harnessing agriculture resource potential through value addition via applications of science and technology.

The GPRS is a practical effort in this direction. It focuses on ensuring sound economic management for accelerated growth; increasing production and promoting sustainable livelihoods; directing support for human development and the provision of basic services; providing special programmes in support of the vulnerable and excluded; ensuring good governance and increased capacity of the public sector; and actively involving the private sector as the main engine of growth and partner in nation building.

Especially in areas for ensuring macro-economic stability, the GPRS focuses on adopting prudent fiscal, monetary and international trade policy measures. These include conversion of short term debts into long term instruments; reduction in fiscal deficits; effective revenue mobilization; effective monetary management to ensure low and competitive interest rates; single digit inflation; stable exchange rates; reasonable spread between lending and saving rates and the establishment of a long term capital market; mechanisms to diversify exports and enhance productivity to endure international competitiveness to achieve a sustainable level of foreign reserves.

6.4 Public Expenditure Management

Given the overall government reform programme, the PEM reforms occupy the most critical space since a government's ability to run its own budget is perhaps the most basic test of the capabilities of the state. However, in the case of Ghana, in the past large deviations have been noted between budget estimates and actual spending. There have been cases of under-estimating spending on salaries and over-estimates on every thing else, which is largely anti-developmental, for it is various non-salary expenditures which determine a state's ability to deliver outputs to the public. There are generally huge shortfalls in actual spending on such items. There is also evidence of large leakages in allocated funds between their release from the centre and arrival at the point of service delivery (ODI, 2005). In view of these factors and the lack of evidence towards improving trends in the situation described above the PEM reforms gain extra significance in the overall government reform programme.

Budgetary Outcomes

For the first time the budget for 2006 was read before the beginning of the fiscal year. Termed the 'Good News Budget', the focus was on investing in people, investing in jobs. The euphoria behind the budget was not unwarranted. The cedi had remained relatively stable and even appreciated in nominal terms against some major currencies in the previous year. The cedi in 2005 depreciated by 0.4% against the US dollar, and appreciated by 8.2% and 11.6% respectively against the pound sterling and euro.

All major sectors projected positive growth - agricultural 4.1% (2004:7.5%), industrial 7.7% (2004: 5.1%), and services 6.9%, and the government had successfully implemented the policy of deregulation of the petroleum industry in June 2005.

The Global Competitiveness Report 2005-2006 also ranked Ghana in 59th position (2004: 68th) among the 117 economies polled worldwide during 2005-2006. Ghana was placed 4th amongst countries in sub-Saharan Africa. The secondary reserve requirement was reduced from 35.0 per cent to 15.0 per cent and the Bank of Ghana prime rate was lowered on two occasions to stand at 15.5 per cent at end of September 2005.

The Ghanaian economy overall has seen average real GDP growth of over 5% between 2003-05 and is projected to grow at 6% in 2006. Over the last three years direct taxes have increased by over 36%, while the indirect taxes have seen a much larger increase of over 46%. What is credible is the fact that the dependence on grants has been reduced from 17% of total revenues to 13%. The economy has also been successful in reducing its domestic debt to GDP ratio to 8.7% in 2005 from 26.8% in 2003. However, the loans component of the total revenue has increased from 11.84% to 13.81% during the last three years (Table 2.3).

Table 2.3: Central Government Budget (2004-2006)

Items (Cedi Billion)	2006 (B.E.)	2005 (Actuals)	2005 (P.A.)	2005 (B.E.)	2004 (P.A.)	2004 (B.E.)
Total Reciepts	**38,973.8**	**34,227.2**	**35,672.5**	**35,801.3**	**28,736.8**	**24,853.1**
Direct Taxes	7,268.6	66,15.2	6,422.0	5,903.5	5,344.0	4,964.9
Indirect Taxes	12,060.3	9,416	10,719.5	10,362.9	8,250.2	7,641.8
International Trade Taxes	4,858.5	4,113.8	4,375.5	4,761.4	3,808.9	3,666.7
Other Revenue Measures	1,513.7	1,157.2	1,339.2	1,339.2	500.9	420.4
Non Tax Revenue	711.0	1,854.1	1,260.0	1,372.3	1,136.3	1,564.3
Grants	5,099.3	5,100.2	5,354.8	5,618.0	4,940.3	3,053.8

Loans	5,383.5	4,544.6	4,437.0	4,314.0	3,405.7	2,601.5
Divestiture Receipts	335.0	232.7	150.0	524.0	285.7	426.8
Exceptional Financing	1,729.1	1,193.5	1,547.8	1,539.2	1,064.8	512.9
Others	14.8		66.7	-		
Total Expenditure	**38,973.0**	**34,227.2**	**35,672.2**	**35,801.3**	**28,736.8**	**24,853.1**
Statutory Payments	13,993.3	11,127.2	12,217.6	12,240.4	8,951.6	9,837.0
Discretionary Expenditure	24,979.7	23,100	23,454.6	23,560.9	19,773.2	15,016.1
Overall Indicators						
Real GDP Growth	6.0%	5.9%	5.8%	5.8%	5.8%	5.2%
12-month Gross CPI Inflation	7-9%	14.8%	14.9% (Sept)	13.5%	11.8%	Under 10%
Gross International Reserves (import cover)	4 months	4 months	3 months (Sept)	4 months	3.8 months	3 months
Domestic Primary Surplus	2.0% of GDP	3.4% of GDP	2.7% of GDP	2.4% of GDP	0.7% of GDP	1.7% of GDP
Overall Budget Deficit	2.1% of GDP	2% of GDP	2.4% of GDP	2.7% of GDP	3.2% of GDP	1.7% of GDP
Domestic Debt-GDP ration	8.7%	10.8%	11.5%	13.5%	17.6%	Halving 26.2% by 2005

(B.E. = Budget Estimate; P.A.: Provisional Actual)(Source: Ghana Budget Statements 2005 and 2006)

Table 2.4 Actual Budgetary Classification by Economic Classification

(as percentage of total expenditure)

(Cedi Billion)	Actuals (2005)	Provisional Actuals (2005)	Budgeted (2005)	Provisional Actuals (2004)	Budgeted (2004)
Statutory Payments					
External Debt	2,949.5	3,610.0	3,620.9	2,847.5	3,658.8
Domestic Interest	2,689.2	2,470.6	2,555.0	2,545	2,456.5
DACF	938.9	1,069.9	1,048.4	749	787.2
Transfer to Households	2,602.2	2,927.7	2,927.7	1,279.4	1,475.3
Education Trust Fund	980.2	1,175.6	1,124.2	823.4	810.5
Road Fund	926.9	883.3	883.3	639.5	607.7
Petroleum Related Fund	40.9	80.3	80.3	67.5	74.6
Discretionary Payments					
Personal Emoluments	8,243.5	8,683.0	8,683.0	6,946.7	6,631.9
Administration	2,155.7	1,613.0	1,613.0	1,439.9	1,558.6
Service	949.2	969.6	969.6	920.4	1,175.7
Investment (Domestic)	821.7	1,427.9	1,427.9	1,011.1	1147

Investment (Foreign)	5,946.1	5,888.1	5,834.5	4,611.1	2,492.2
Arrears Clearance				270.8	136.2
Repayment of Domestic Debt	1,574.4	996.2	996.2		
HIPC-Financed Expenditure	1,946.6	1,614.8	1,594.4	1,869.6	1,206.4
Subsidies		524.0	461.5	2,207	392
Strategic Oil Stocks		145.0	145.0		
Capitalization Grant		95.0	95.0		
Others	1,462.2	1,498.2	1,643.3	508.90	242.5
Total Payments	**34,227.2**	**35,672.2**	**35,801.3**	**28,736.8**	**24,853.1**

This assessment is not confined to examining the extent to which budgetary outcomes are achieved i.e. whether expenditures incurred through the budget achieve policy objectives or not, but also to analyze the extent to which poor performance for one of the core dimensions is likely to influence the performance of the PEM system in relation to the other dimensions. For instance, underperformance of tax revenue accounted for a shortfall in total revenue which in turn resulted in shortfall of budgeted funds for the District Assemblies Commission Fund (DACF) and affected the realization of budgeted Total Payments. This exemplifies the ripple effect created by a poor performance of one dimension on all tiers of the economy. In a similar case, VAT performed well when all other indirect taxes fell short of budget targets but low collections of import VAT due to exemptions adversely impacted the budgeted yield for National Health Insurance Levy.(Supplementary Budget Document, 2006)

Improvements in a PEM system are directly correlated to the performance of the overall machinery including policy, budget formulation and execution and monitoring and evaluation. For instance, reduced domestic debt to GDP ratio resulted in easing the pressure on domestic interest rates on the money market and ensured growth in credit to the private sector allowing for 'crowding-in' of private investment resulting in fulfillment of government policy objectives.

Sectoral Allocation

The economy is witnessing an expansion of the industrial and services sector, which in turn reinforces government's efforts at employment generation and poverty reduction. Industry and Services together have exceeded the growth estimates by 3.4 percent, while agriculture has shown a negative trend to the tune of 2.4 percent. Such negation of growth will undoubtedly diminish the success achieved in the economy leading to economic and regional disparities. The role of Agriculture and allied activities cannot be underestimated in developing economies because of the high dependency ratios in these sectors. Moreover sectors like Crops, Livestock and Fishing are more informal in nature, engaging the female workforce as well. If these sectors show negative trends it will hamper the gender agenda in development

The Education and Health sub-sectors have received a high allocation of resources, followed by Road and Transport, reflecting the priorities of government and its budget for developing social as well as economic infrastructure. It is interesting to note despite governments intention for decentralization and donor insistence on the same, Local Government and Rural Development and Agriculture have a lower resource allocation.

Table 2.5: Actual Budgetary Allocation by Sector

(as percentage of total expenditure)

Sectoral Allocations	2006	2005
Road and Transport	9.4%	8.3%
Works and Housing	3.4%	2.7%
Energy	1.3%	1.2%
Agriculture	4.8%	4.9%
Education and Sports	21.2%	17.4%
Health	12.3%	12.8%
Finance and Economic Planning	1.5%	1.3%
Local Government and Rural Development	4.3%	1.2%
Interior	2.3%	1.8%
Defense	1.8%	1.1%
Public Utilities Regulatory Commission	2.4%	1.8%
Others	35%	46%

The legal and institutional framework for PEM

The current PEM systems in Ghana are based on tenets outlined in the Financial Administration Decree and Financial Administration Act, 2003, the aim of which is to "regulate the financial management of the public sector; prescribe the responsibilities of persons entrusted with financial management in the government; ensure the effective and efficient management of state revenue, expenditure, assets, liabilities, resources of the government, the Consolidated Fund and other public funds and to provide for matters related to these". PEM is structured around the functions of various institutions of the government.

Institutionally, Ministry of Economic Planning and Regional Cooperation (MEPRC)/ the National development Planning Commission (NDPC) are responsible for overall planning. NDPC was established under the 1992 constitution to develop, monitor, and co-ordinate development policies, programs and projects.

The Ministry of Finance (MoF) along with Controller and Accountant General (CAG) is responsible for budget formulation, implementation, monitoring and reporting. The CAG is enjoined by the Financial Administration Decree to post staff to Ministries, departments and agencies (MDAs). The MoF initiates the budget process by issuing guidelines for MDA's (Box 2.1). The Bank of Ghana is the central bank which regulates the banking sector and monetary policy of the country. At present there are 36 MDA's grouped under five sectors.

Box 2.1: The Budget Process

The budget process in Ghana can be defined in eight steps, beginning in May and ending in November.

Step I: Macro-Economic Framework

The development of a macroeconomic framework which forecasts aggregates like GDP, domestic revenue and the availability of donor resources. It primarily involves personnel in the Ministry of Finance and Economic Planning (MFEP), assisted by Ghana Statistical Services, the Bank of Ghana, the Planning Commission and the Revenue Agencies.

Step II: Policy Review

Simultaneously with Step I, MDAs undertake a review of their policies, objectives, outputs and outcomes in order to estimate their broad expenditure requirements. Reports are submitted to MFEP and these constitute the information base for Step III.

Step III: Cross-Sectoral Meetings

Groups of MDAs are brought together to discuss their policy review reports in order to achieve coordination among them. The Chief Director of a lead ministry is responsible for the production of a report to MFEP.

Step IV: Ceilings

MDA expenditure ceilings are determined by MFEP in the light of revenue estimates. These ceilings are conveyed to MDAs as part of the guidelines for the preparation of the MDA budgets.

Step V: Review of MDA Strategic Plans and Budget

MDAs review their strategic plans including outcomes, objectives and costs.

Step VI: Prioritization and Presentation of MDA Budgets to MFEP

MDAs prioritize their activities and prepare their estimates to fit within the guideline ceilings.

Step VII: Budget Hearings

MFEP conducts budget hearings with each MDA to ensure that their estimates are within the ceilings and are consistent with their strategic plans.

Step VIII: Finalization and Approval of Estimates

MFEP submits estimates to Cabinet and then to Parliament for approval. The deadline for submission to Parliament is 30th November.

Any consultations with non-government parties occur outside the above processes

Source: ODI (2005)

Each agency has a parent ministry, headed by a Sector Minister and a technical and administrative Chief Director. The accounting systems in MDA's are manned by CAGD personnel according to law.

The Public Procurement Act 2003 provides for a credible framework through the establishment of the National Tender Board which follows a hierarchical arrangement from centre to regional to district boards.

Ghana has the required legal system for both internal and external audit services through the Internal Audit Agency Act, 2003, and Audit Service Act, 2000, but audit mechanisms continue to be weak in the country. Ghana Audit Service (GAS) is responsible for examining and certifying public accounts and accounts of all public offices.

In order to promote legal, administrative and fiscal decentralization, the Local Government Act, 1993, Civil Service Law, 1993, National Development Commission Act, 1994, National Development Planning Systems Act 1994 and District Assemblies Common Fund Act, 1993 are in place. Devolution to the Urban/Zonal/Town Area Committee has also occurred. However the extent and success of the decentralization process will become evident from the analysis of PEM indicators in section 3.

In order to promote transparency in PEM, public disclosure laws have been put in place (Right to Information Act, 2003) but again the implementation procedures are way behind the legal provisions.

Assessment of the PEM systems, Processes and Institutions

The objective of this section is to provide an assessment of the key elements of the PEM system, as captured by the indicators, and to report on progress made in improving those.

Budget Credibility

Accuracy of the data used for budget formulation and projections

Ghana has mechanisms for decentralized data collection and Monitoring and Evaluation (M&E) but they are marred by functional disabilities. Data for sources of funds to the districts are not readily available and not easy to disaggregate from financial returns submitted by districts (WB, 2004). However data for District Assemblies Common Fund (DACF) and internal revenue generated by the districts can be obtained from DACF Administrators Office, Ministry of Local Government and Rural Development (MLGRD) and districts. Information on allocations from HIPC fund to districts is available from CAGD. At the regional level, Regional Poverty Monitoring Groups (RPMG's) have not been working due to lack of resources and therefore they have not been forwarding data to the National Development Planning Commission (NDPC).

The GoG has launched an initiative to produce a 'composite budget' for DAs which would serve an informational purpose as they would incorporate expenditure under different jurisdictions. A pilot exercise was completed in three DAs (Akwapim North, Dangme East and Dangme West) in April 2004 aggregating the budgets of the decentralized departments together with the central administration budget of the DAs into a composite budget.

In order to achieve uniformity in formats for better analysis a bridge table has been developed to generate expenditure reports that are consistent with the standard GFS functional and economic classifications. The system is based on NETS to facilitate the generation of routine monthly expenditure reports based on accounting data.

Aggregate outturns after budget implementation

Total Payments (statutory and discretionary) for 2005 stood at 34227.2 billion cedis as against a budget estimate of 35801.3 billion cedis. External Debt obligations, though over projected in the budget, were fully met.

The 2006 budget document had expected the total investments (excluding the statutory investment expenditures of DACF, GETFUND, Road Fund and Petroleum related funds) to be 7316 billion cedis, about 44.5 billion short of the budget estimate. The reason attributed for the shortfall was low foreign financing and 1427.9 billion cedis was to be financed by domestic investment. But in the 2006, Supplementary Budget Report foreign financed investment exceeded the budget estimate by 111.6 billion cedis and domestic finance fell short by 42.5 percent of the budget estimate. This highlights the unpredictability of foreign funds and Ghana's excessive dependence on them for development financing. However Ghana's President wishes to end dependency on IMF financial resources in the coming years.

Total revenue for 2005, had a shortfall equivalent to 2.5 percent of the budget target, standing at 23156.2 billion cedis due to underperformance of tax revenue. The outturn however showed a growth of 21.9 percent over 2004 levels. Non tax revenue contributed 1854.1 billion cedis, 481.8 billion cedis higher than the budget target, mitigating the slack growth in tax revenue which stood at 20144.9 billion cedis against the budget estimate of 21027.3 billion cedis. The outturn shows an over performance of 35.1 percent of the budget target and is 63.2 percent above 2004 figures.

Comprehensiveness and Transparency

Budget Classification

As part of the MTEF initiative a new expenditure classification structure and Charter of Accounts (CoA) has been introduced. The 15-digit CoA, introduced in 1999, summarizes expenditure into four major budget items (sub heads): (1) salaries and pensions; (2) non-salary administrative expenses; (3) service expenditures; and (4) investment expenditures. Since its introduction, improvements made to the Classification and CoA, include: (1) the introduction of additional organizational levels, so that it is possible to see where expenditures are taking place at the lowest level, i.e. the introduction of codes to identify whether an organization is subvented agency or not; (2) the use of codes for districts; and (3) the source of funds for each activity or type of expenditure so that it will be possible to identify whether an activity is funded by government, or by a donor, including the specific donor or whether it is poverty or HIPC focused. This system is the basis for the current fiscal reporting system and has the capacity to classify the budget on broad administrative, functional and economic basis (WB, 2004). Also a bridge table has been formed to reconcile the CoA with the standard GFS functional and economic classifications.

Comprehensiveness of information included in budget documentation

The budget document provides information on parameters such as (a) Macro-economic assumptions, including estimates of aggregate/sectoral development, inflation and exchange rate etc. (b) Fiscal developments (c) Summarized budget data for both revenue and expenditure and (d) Prior year's budget outturn.

Some of the necessary information not given in the budget document including the following: (a) Deficit financing, describing anticipated composition (b) Debt stock, including details at least for the beginning of the current year (c) Financial Assets, including details at least for the beginning of the current year (d) Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal (e) Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs; and (f) Capital Expenditures/Revenues

Such information would provide a comprehensive view of where the government stands in a report card format i.e. how well it has traversed from planning through objectives and arriving at outcomes. Tracking deviations and identifying the mismatch of inputs and outputs would provide a background for the preparation of more accurate and responsive budgets.

Transparency in Procurement

Africa has an estimated procurement market of between 9 and 13 per cent of GDP and intra-regional trade in the West African region is being encouraged through various Economic Community of West African States (ECOWAS) protocols. In Ghana, procurement takes between 50 per cent and 70 per cent of the total budget after personal emoluments, making up about 14 per cent of the GDP which calls for effective procurement practices free of corruption. The Public Procurement Act 2003 provides a credible legal framework but the basic procurement structure i.e. the establishment of Tender Committees, is yet to be fully achieved.

The GoG in conjunction with the Swiss Government developed a Public Procurement Model of Excellence, a software package that was used for the assessment of procurement activities in the specific entity and the country as a whole. Also Ghana is contemplating one umbrella body to be called Ghana Institute of Procurement and Supply Chain Management (GIPSM) to unify all professionals and practitioners engaged in procurement under umbrella.

Public Disclosure

Ghana has the legislative framework for public disclosure through the Right to Information Act 2003. To promulgate the citizenry to make use of it the Ministry of Communication and Ministry of Information are working on initiatives such as the e-Ghana project and Community Information Centers. The e-Ghana project has been approved by the World Bank for funding of US$ 40 million. The main objective of this project is to assist the Government of Ghana to generate growth and employment by leveraging Information and Communication Technology (ICT) and public-private partnerships to: i) develop the IT Enabled Services industry, and ii) contribute to improved efficiency and transparency of selected government functions through e-government applications (World Bank, 2006)

Apart from the governments' efforts to increase information access, donor agencies such as the World Bank have their Public Information Centre (PIC) which is open to the public and provides access to current statistics, literature and reports on development work in Ghana and beyond.

In line with these efforts, budget 2006 proposed developing a communication strategy to provide adequate and reliable information. Activities to be implemented would include publication of quarterly 'state of the economy' reports, operationalising the website of the ministry, undertaking periodic media encounters, and setting up of an information desk in the ministry

E-Governance/Use of IT

The setting up of Oracle Financials as a centralized solution for PEM is complete and has been deployed for the following MDA headquarters: Ministry of Finance and Economic Planning, CAG, Ministry of Health, Ghana Health Service, Ministry of Education and Sports, Ghana Education Service, and Ministry of Road Transport.

It has been proposed in 2006 budget to fully computerize Bank of Ghana's operations to enhance its supervisory and regulatory role.

6.5 Policy based Budgeting

Orderliness and participation in the annual budget process:

For the first time in Ghana the budget was read prior to the beginning of the new fiscal year (2006). An integrated top down and bottom-up budgeting process, involving all parties is gradually being institutionalized with donor insistence. The budget preparation process now incorporates: GPRS workshops for the Ministries, Departments and Agencies (MDAs); Policy Review Workshops for the MDAs; Intrasectoral Meetings for the MDAs; and Strategic Planning and Costing Workshops for the MDA's. MDA's then prepare Strategic Plans and Activity based budgets.

GPRS as a policy instrument has had a major role to play in Ghana's budget formulation exercise. Sustained efforts to make GPRS successful have led to various reforms at all levels, ultimately impacting budget formulation, execution, monitoring and evaluation. Workshops were organized to improve MDA's understanding of the MTEP process as well as linking the GPRS and APR to the budget. MDA's were required to show the progress made in achieving targets set in the GPRS and the remaining gaps up to 2005 and incorporate poverty reduction policies into their strategic plans. The National Expenditure Tracking System (NETS) has been put in place to track poverty as well as general GoG expenditures that pass through the CF.

Level and Basis of Prioritization for allocation of resources

Although allocation of resources to broader objectives like "investing in people, investing in jobs" and overall poverty reduction is objectively planned, the prioritization of projects within these broad heads for disbursement of funds is not clear. The GPRS report vaguely mentions that 'implementation of the medium term priority programmes and projects will reflect the geographic locational priorities identified …' It is unclear that factors such as social benefit maximization, and short and long term returns are taken into account while prioritizing.

Multi year perspective in fiscal planning

Even though multi year fiscal forecasts are done for two out-years, these figures are presented as 'discretionary expenditure ceilings'. If these ceilings are adhered to, the expenditure pattern would be duplicating itself on the previous year and hence hamper improved policy changes in the new budget.

6.6 Predictability and Control in Budget Execution

Effectiveness of the revenue/tax collection machinery

The concerned revenue departments are making responsive and citizen friendly efforts to enhance collections and improve service delivery.

GoG granted a one-off amnesty on penalties and sanctions for self disclosure of un-reported or under-reported corporate and personal income taxes, VAT, duties, withholding and other taxes. The window of opportunity was from 1st Jan to 30th June, 2006. Thereafter the revenue agencies could rigorously enforce penalties and sanctions for undeclared taxes.(Budget,2006)

Addressing the delays in VAT refund, the budget proposes to adopt a fast track system, where the first two claims within a quarter will be refunded automatically without audit, while the third claim would trigger an audit of the entire period.

Cash Management

Use of quarterly cash plans, monthly cash limits and specific expenditure authorizations have been introduced with specific sanctions for adherence and control on budgeted expenditures.

Existence of a large number of bank accounts administered by MDAs outside the treasury system impedes control on public expenditures. Although the management and reporting of all public money is subject to the requirements of the FAA, this fragmentation has diminished both accountability and control.
To help address this problem, the CAGD has embarked on a process of cleaning up unauthorized and redundant bank accounts of government agencies.

Effectiveness of payroll controls

Government employment and pay regulations are clearly described but indications are that they are only partially observed in practice. The pay regulations are governed by the Ghana Universal Salary Structure while employment regulations are governed by the Industrial Relations Act and Ghana Labor Law.

Expenditure v/s Performance monitoring

The Ghana Audit Service (GAS) undertakes performance audits from time to time but its scope and impact is not clear from the literature review. It submitted five performance audit reports in 2005- overseas scholarship, safe drinking water in selected communities, management of road fund, waste management and procurement of drugs.

GAS proposes to continue its institutional capacity building in the areas of Enhanced Financial audit, Performance Audit Information Technology and Modernization of Management and Administration.

The Ministry of Public Sector Reform has been mandated to develop Customer Charters for all MDAs to establish business standards with time lines including appropriate sanctions for default in service. This will help speed up various approval processes by increasing accountability.

Predictability in the availability of funds for budgeted projects

The system of payment is burdened with delays as a result of over-centralization. This situation has led to undue delays in accessing and disbursement of funds for MDAs programmes. The Treasury Realignment system, started in August 2006, will ensure that MDA’s have specific treasuries and the reporting on all sources of funds is under the supervision of the head of MDA. Budgetary allocations can then be transferred to cost centers within the MDA's directly and shorten the disbursal process and reduce transitional costs. The new system would cover the consolidated fund, internally generated funds and donor funds and would be an improvement over the former system where the treasury system covered only the Central Government's budgetary allocations

DACF earmarks 5 percent of national tax revenues to be utilized by district assemblies, but half of the fund is earmarked from the centre for capital projects and the remaining half is generally used as matching funds for donor projects. Local governments own sources of revenue are also limited due to limited assignment of tasks with revenue generating potential. The concept of user fee based services has not been encouraged because of the lack of political will. Inter-governmental fiscal relations and the extent to which spending districts and agencies are able to plan and commit expenditures in accordance with budgets and work plan are in question.

Internal Audit

Under the Internal Audit Agency Act, 2003, an Internal Audit Agency has been established. A literature review on the topic indicates that internal audit mechanisms are weak throughout the system but its importance and role in effective PFMA is not underestimated.

6.7 Accounting, Recording and Reporting

Quality, Timeliness and Regularity

In-year reports: CAGD accounting system is currently not capable of producing complete and accurate in-year reports on central, much less general, government budget outturns. Monthly reporting of budget revenues and expenditures is not only partial, but has a compliance rather than a fiscal management focus. On a quarterly basis, and for the purpose of poverty spending monitoring, the information from the CAGD accounting system is complemented with data on spending by statutory funds and HIPC-financed spending. Efforts for computerization of accounts and reporting systems through BPEMS will improve capability and efficiency of the system.

Annual financial statements: The audited final accounts are publicly available but are produced with significant delays. They are routinely presented to Parliament well in excess of the constitutional provision (Article 187 (5)) of six months after the end of the fiscal year. Audit arrears and delays at the lower tiers not only impacts timeliness but also affects quality of data (WB,2004).

Reconciliation

A monthly reconciliation statement for each bank account is produced. These reflect the normal bank reconciliation methodology, and contain detail of cash book and bank account balances. The statement identifies the items not yet cleared and also indicates that most of the items are in fact cleared in the following month. Items on the reconciliation statement that have been caused by timing differences are normally cleared within one month. Items that require investigation of source documentation take longer, since the Office of the Controller and Accountant General must scan all 125 Treasuries in order to find the supporting documentation to classify and record transactions appropriately. Clearing unreconciled transactions that originated in districts may take up to 5 months because of the manual procedures involved, but the volumes and values associated with this are considered not material and the clearance of these items is well tracked. Most of the big volume and big value transactions are appropriately recorded and cleared within 2 months (WB, 2004).

6.8 External Scrutiny and Audit

Existence of a Legislative Framework

The Constitution provides for the Ghana Audit Service (GAS), which is regulated by the Audit Service Act (2000). The AG's is to examine and certify public accounts and the accounts of all public offices (including the courts, central and local government, universities, public institutions, public corporations, traditional councils, etc.). Auditors have operational independence and are given access to all books, records, returns and other documents relating or relevant to the audit of the accounts.

Scope of the audit service

The AG must submit an audit report to Parliament within 6 months of the end of the financial year, which Parliament must debate. Parliament has established a Public Accounts Committee to assist it in considering the AG's report. Sanctions are not always effective, but the AG has the power to impose financial penalties on government staff. This is supplemented by powers to withhold emoluments and allowances of a person who fails to respond to audit findings within thirty days. The Audit Services Board determines the terms and conditions of service of audit service staff, in consultation with the Public Service Commission.

Audit Backlog

In 2005, 6600 audits out of a total of 6719 projected for the year were completed and 8 out of 12 reports were also done and reports submitted. The computerized payroll audit started in 2004, continued and recorded recovery of 18 billion cedis in respect of unearned salaries and pensions.

GAS has taken up various capacity building and technical support programmes to further strengthen its role in the future. Also an Audit Report Implementation Committee has been established in Parliament

6.9 Donor Practices

Multi Donor Budget Support Group (MDBS)

The MDBS provides a fixed as well as performance based funds for budget support to the government. Getting the latter is dependent on achieving agreed goals in areas such as economic growth, education and good governance. These goals act as "triggers" – when they are reached, the donors hand over more money. This process ensures the link between medium-term policy and budget planning, and execution and macroeconomic stabilization. As a reflection of the MDBS, allocation of resources to poverty reduction has increased to 8% of GDP in 2005 from 4.8 percent in 2002 (DFID, 2006).

Predictability of Direct budget support

The 2006 budget document had expected the total investments (excluding the statutory investment expenditures of DACF, GETFUND, Road Fund and Petroleum related funds) to be 7316 billion cedis, about 44.5 billion short of the budget estimate. The reason given for the shortfall was low foreign financing and 1427.9 billion cedis was to be financed by domestic investment. But in the 2006, Supplementary Budget Report foreign financed investment exceeded the budget estimate by 111.6 billion cedis and domestic finance fell short by 42.5 percent of the budget estimate. This highlights Ghana's excessive dependence on foreign funds for development financing and their unpredictability. However what is credible is the fact that the dependence on grants has reduced from 17 percent of the total revenues to 13 percent of the total revenues.

6.10 Government Reform Process

In order to enhance performance and infuse accountability in PEM, GoG has embarked on a series of reforms at the national and sub-national level and across all MDAs. At the legislative front progressive acts include:

- Decentralization: Local Government Act 1993, Civil Service Law 1993, National Development Commission Act 1994, National Development Planning Systems Act 1994, District Assemblies Common Fund Act 1993
- Transparency and Disclosure: Public Procurement Act 2003, Right to Information Act 2003.
- Audit: Internal Audit Agency Act, 2003, Audit Service Act 2000

At the national level efforts are being made for better accounting, transparency and public participation. Uniformity in formats for better analysis through Charter of Accounts (CoA) has been introduced. Also a bridge table has been formed to reconcile the CoA with the standard GFS functional and economic classifications. The setting up of Oracle Financials as a centralized solution for PEM has been completed.

In the 2006 budget to fully computerize Bank of Ghana's operations to enhance its supervisory and regulatory role.

The GoG in conjunction with the Swiss Government developed a Public Procurement Model of Excellence, a software package that was used for the assessment of procurement activities.

E-Ghana project and Community Information Centers are being introduced to encourage public feedback for need-based policy making. Budget 2006 also proposed developing a communication strategy to provide adequate and reliable information by making quarterly 'state of the economy' reports, operationalising the website of the ministry, and setting up an information desk in the ministry

The Ministry of Public Sector Reform has been mandated to develop Customer Charters for all MDA's to establish business standards with time lines including appropriate sanctions for default in service. This will help speed up various approval processes by increasing accountability.

In order to strengthen the sub national governments in terms of planning inputs for budget formulation, budget execution and control, the GoG has launched an initiative to produce a 'composite budget' for DAs to incorporate expenditure under different jurisdictions.

An indication of a sweeping reform process across all issues involving PEM seems to be in force. The intention for reform is strongly manifested in all literature and government documents even though the pace of the reforms is not very encouraging. This is mainly due to lack of institutional and regulatory framework for enforcement accompanied a shortage of qualified manpower.

Institutional factors supporting reform planning and implementation

Impact of the PFM reforms is likely to depend on the extent to which existing institutional arrangements support a sustainable reform process. In this context, consideration may be given to the extent to which the reform process is driven by comprehensive capacity-building programs and consideration is being given to retaining trained staff. Various ministries and line departments have embarked on capacity building programmes (MOFEP, GAS) and are identifying the need for performance management. Yet, the Ghana reform process needs to leverage the human resource facet.

Currently, the backbone for reform has been laid through the legislative framework, but institutional reforms for implementation have lagged behind. For instance, the Internal Audit Agency Act 2003, is in existence but inadequate institutional and regulatory back up has rendered the Act ineffectual.

Ghana needs to incorporate a system of simultaneous legal and institutional reform planning and implementation in order to accelerate its pace of development and achieve sustainable targets in PEM.

6.11 Concluding Summary

Ghana on its track to reform faces countervailing pressures and conflicting choices in its budget processes. Conflicting choices have to be made between giving priority to economic infrastructure or to social services. There is also a choice between spending on various sub-sectors such as roads, education, health, local government, rural development, capacity building. Sequencing factors also need to be taken into account, as some interventions may yield higher returns in the short term while some might have longer financial yield periods with immediate social benefits. The technical knowledge needed to guide decision-makers through these trade-offs need to be built by adopting a comprehensive training and development plan at all levels of functioning. Lack of knowledge and expertise makes it very difficult to maximise the poverty impact of public expenditure, given overall economic and political constraints.

GoG has made various practical attempts to increase the poverty focus of national budgets in the context of PRSPs through prioritised resource mobilisation to sectors/sub-sectors and monitoring and evaluation mechanisms to measure results and impacts on poverty levels. However the result of these efforts has not been phenomenal, even though achievements can be tracked over years. This study identifies weak PEM as the main reason for the non-realisation of policy objectives through budgets This issue is becoming more relevant as donor agencies are shifting towards programme/budget support which channels resources through existing public expenditure management systems in recipient countries. Therefore fundamental reforms aimed at efficient and effective outcome-oriented public expenditure management are needed to achieve policy oriented budgetary targets.

7. SOUTH AFRICA

7.1 Introduction – the Decentralized Political Framework

What is evident to and acknowledged by most observers as a significant success of the (relatively) new South African democracy is the country's intergovernmental system founded on the principle of cooperative governance.

The design of South Africa's intergovernmental system is informed by the Constitution, which among other things:

- Establishes the three "spheres" of government as distinct, autonomous and interdependent;
- Assigns powers and functions to each sphere; and
- Prescribes revenue-sharing arrangements that are intended to be equitable and transparent.

Constitutionally, the provinces exist as governments with legislative and executive branches that are accountable to their electorates. This is very different from the provinces during the apartheid era, which functioned purely as administrations.

The intergovernmental system comprising national government, nine provinces, and 284 municipalities is a stable but evolving system. The system of government is designed so that certain functions are exclusive (performed by one sphere only), while others are concurrent (shared between different spheres). The Constitution divides functions among the three spheres of government and clearly distinguishes between exclusive and concurrent responsibilities.

Concurrent functions include policymaking, legislation, implementation, monitoring and performance assessment. Functions such as school education, health services, social welfare services, housing and agriculture are shared between national and provincial governments. For these functions, national government is largely responsible for providing leadership, formulating policy, determining the regulatory framework including setting minimum norms and standards, and monitoring overall implementation by provincial governments. Provinces are responsible mainly for implementation in line with the nationally determined framework.

Each sphere of government has specific exclusive functions. For national government, these include national defence, the criminal justice system (safety and security, courts), higher education, water and energy (electricity) resources and administrative functions (home affairs, collection of national taxes). Exclusive functions for provinces include provincial roads, ambulance services and provincial planning.

A major recent change in the current intergovernmental arrangements is the overall administration of the social security grants function. This function has shifted from being a concurrent function to an exclusive national government function.

A number of appropriate institutional mechanisms (intergovernmental forums) have been designed to enhance policy development, planning and implementation. These include the following:

- Extended Cabinet: This is made up of the national cabinet, provincial premiers, and the chairperson of the SA Local Government Association (SALGA). This body advises the national cabinet when it finalizes the country's Medium Term Expenditure Framework and budget..

- The President's Coordination Council (PCC). This is chaired by the President and comprises the nine premiers, the chairperson of SALGA, and the national ministers responsible for cross-cutting functions such as provincial and local government affairs, public service and administration and finance. Other national ministers may be invited to participate.
- The Budget Council: This was established under the Intergovernmental Fiscal Relations Act (1997). The Minister of Finance and the members of the executive councils (MECs) responsible for finance in each of the provinces make up this body. The national and provincial spheres consult on any fiscal, budgetary or financial matter affecting provinces as well as any legislation that has financial implications for provinces.
- MinMECs: These are sectoral policy forums made up of the national ministers responsible for concurrent functions and their provincial counterparts.
- Joint MinMECs: These are sectoral meetings between selected sector MinMECs and the Budget Council.
- Moreover, the recent Intergovernmental Relations Act provides for the establishment of a provincial equivalent of the PCC. In each province, the Premier's Coordinating Council will comprise the Premier, MECs, and mayors of municipalities in that province.
- Each sphere of government was intended by the framers of the constitution to be "autonomous but interdependent". Thus the provincial system was designed to promote a cooperative system within a unitary state. Moreover, it was intended to introduce flexibility into the political system so as to accommodate regional cleavages. In other words, it was created to allow the public an additional entry into the political system so that the system would be as inclusive as possible.

However, there is a view that the provinces exercise no real policy autonomy. This belief partly stems from the lack of accountability of provincial governments to their electorates, a situation that derives from their inability and/or unwillingness to raise own sources of taxation revenue.

7.2 Planning and Budgeting

As stated earlier, the decentralized political framework developed with the advent of democracy in 1994 characterizes South Africa as a unitary state comprising three "spheres" – national, provincial (nine) and local (284) governments. The spheres are characterized as "interdependent" but each has significant autonomy. The Constitution spells out clearly the responsibilities of each sphere including those that are shared (concurrent functions) between spheres.

Education, for instance, is a "concurrent" function, shared between the national and provincial spheres. There is no local government role in education. The health function, however, is shared between all three spheres.

In education, the national government is responsible for higher education (universities) and for policy development for school and college education. The provinces, on the other hand, are responsible for policy implementation of school and college education.

Strategic planning takes place at both the national and provincial levels. A Medium Term Strategic Framework (MTSF) setting out the government's priorities for a 5-year timeframe is developed at the national level. In addition, provinces undertake their own strategic planning exercises most of them producing a 'provincial growth and development strategy'.

Planning takes place along sectoral lines between national and provincial departments (e.g. national and provincial departments of education). However, budgeting or at least the flow of funds takes place between the national government and the provincial government (see later for more details of this process).

The budgeting process is driven by the Medium Term Expenditure Framework (see ection 2.3.3), a three-year rolling plan coordinated by the Ministry of Finance.

The budgeting process can be described as follows (using the education sector as an example):

The budget for the national education department is prepared by the Ministry of Education for submission to the Ministry of Finance (MoF). Provincial education budgets are prepared by provincial education departments for submission to provincial treasuries.

The MTEF provides the global amounts available for expenditure based on revenue projections and after taking into account debt repayment and the deficit target. The 'vertical division' of resources comprises four slices: debt repayment, and the national, provincial and local government shares of nationally-collected revenue. The vertical division of resources is not formula-driven but is determined by the MoF taking into account historical factors and broad indicative requirements of each sphere.

The national share is allocated to the various line ministries (education, health, foreign affairs, defence, etc.). Important institutional mechanisms overseeing this process are the Ministers Committee on the Budget (political level) and the Medium Term Expenditure Committee (civil service, technical level).

At the provincial level, a funding formula is used to determine the share of nationally-collected revenue that accrues to each province. This formula is driven primarily by pro-poor, equity considerations. The provincial funding formula determines an "equitable" share for each province and this is provided to the province in the form of an unconditional, block grant.

The provincial funding formula is one of the major innovative features of the South African PEM system. Its objective is clearly redistributive and the formula is reviewed every few years using new and updated data. The formula takes account of the recommendations of the Financial and Fiscal Commission, an independent statutory body established in the new Constitution.

An important feature of the provincial funding formula is its relative simplicity – it has four main components and two smaller ones. These components can be described as follows:

- Education (51%) criteria are size of the school-age population and number of learners in school;
- Health (26%) based on proportion of the population with and without access to a medical aid scheme;
- A 'basic' share (14%) derived from each province's share of total population;
- An 'institutional' component (5%) divided equally between provinces;
- A poverty component (3%); and
- An economic component (1%) based on provincial GDP.

Within-province budgeting is a matter for the provincial treasury and the provincial line departments. Each province has two sources of revenue: the block grant from the nationally-collected revenue and 'own-source' revenues. The latter are relatively insignificant accounting for only about 3% of provincial revenues. The provincial treasury allocates these funds to the provincial line departments on the basis of submitted budgets, the availability of resources and provincial priorities. Important institutional mechanisms in the budgeting process at the provincial level are the following: the Executive Council (provincial "cabinet"); and the Medium Term Expenditure Committee.

In addition to the sources of revenue described above, provincial departments may also receive “conditional’ grants from national line ministries to undertake specific responsibilities –e.g. there have been such grants from the national level for early childhood development and for school feeding schemes.

Local government is funded in a similar way to the provinces. The vertical division of resources determines the global local government share. The horizontal division of resources (each municipality’s unconditional grant share) is determined by a formula which is again driven by considerations of equity and poverty. In addition, the local government sphere receives considerable funding through conditional grants from the centre, especially for infrastructure and capacity building. The major difference between the provincial and local government spheres is that the latter has much greater own-source revenues particularly through property taxes and sales of utility services such as electricity and water. However, there are considerable disparities across municipalities especially between urban and rural, in the capacity to generate such own-source revenues.

A key feature of the South African budgeting landscape is the development of appropriate institutional mechanisms for budget development, implementation and evaluation. These institutional mechanisms include the following:

- Budget Council, comprising the Minister of Finance, provincial ministers of finance, the FFC;
- Budget Forum: Budget Council plus representatives of local government;
- Sectoral Forums comprising national and provincial ministers (e.g. Education, Health, the so-called MinMecs);
- MinComBud at the national level; and
- MINTEC at national and provinces

Monitoring of budgets and expenditure takes place at various levels. Important institutional mechanisms in this regard include the following:

- Parliament – Standing Committee on Public Accounts
- National Line Departments
- Auditor-General

7.3 The Medium Term Expenditure Framework (MTEF)

This section draws heavily from the excellent and comprehensive paper by van Zyl (2003). As van Zyl (2003) has described it, the budget system inherited by the democratic government in 1994 contained several weaknesses. First, within the previous budget process there was no link between planning and budgeting with directorates for each of these functions usually kept separate within the same departments. Planning was seen as a political process and budgeting as a technical exercise. Policies were not required to be costed and in most cases the data and methodology for doing so accurately did not exist (van Zyl, 2003).

Second, budgeting was incremental with small adjustments being made to allocations with little thought given to the activities being funded or to the long term goals of the relevant department. Activities were seldom reviewed to ensure that they were still necessary or that money was being spent effectively. Furthermore, there was unsatisfactory evaluation of policies and programmes within departments from both a cash management and planning point of view. The focus of attention was on securing more funds, not on delivery. It was therefore seldom necessary to restructure or evaluate the budget, since new programmes could be added to justify larger budgets (van Zyl, 2003).

Third, the budget reporting format of the previous system only reported inputs to departments, but did not describe what the money would purchase (outputs) or how such expenditures would contribute to departmental aims (outcomes). Types of expenditure were listed without providing information on the purpose of that expenditure. The result was that the budget on its own did not provide much insight into government's policies nor its use of scarce resources. Although the budgeted amounts were voted on, virtually no departments supplied regular updates on actual expenditures to Parliament. The lack of spending trend information also made it difficult for Parliament to assess whether budgets submitted were realistic. In fact the lack of standardization in vote and programme structure made it almost impossible to compare expenditures across provinces for certain key expenditures, or to build an accurate composite picture of government spending (van Zyl, 2003).

The MTEF was formally introduced in 1997. The 1998/99 budget was the first prepared under the 1996 Constitution and the first year of implementation of the MTEF. The first Medium Term Budget Policy Statement (MTBPS) was published at the end of 1997 for the 1998/99 fiscal year. This pre-budget report presented government's overall fiscal policy objectives (balance between expenditure, revenue and the deficit) and its budget policy objectives (the relationship between spending decisions and policy priorities) for the forthcoming budget and the following two fiscal years.

As van Zyl shows, the introduction of the MTEF reflected many lessons learned in the first two efforts at introducing it. Most importantly, South Africa's commitment to cooperative governance has addressed the conflictual nature of the budget process without removing the imperative of fiscal discipline. The Budget Council (a consultative body comprising the Minister of Finance, the nine provincial MECs for Finance, the Heads of Treasury, treasury advisors, and the DG of Finance. The Council makes recommendations to the Cabinet on fiscal and financial matters affecting provincial government.) was a key innovation as were the sectoral teams in encouraging a more collegial or cooperative approach to resolving budget conflicts. The idea of the Budget Council or 'Team Finance' is to reach consensus among provincial finance ministers on the distribution of revenue. It is not clear, however, that the Budget Council would have been as successful had there more provinces controlled by opposition political parties.

Other measures to secure political commitment to the MTEF and reprioritization include the formation of the Ministers' Committee on the Budget (MinComBud) and are supported by a number of discussion forums which includes the sectoral teams, a provincial Premier's forum and national and provincial Medium-Term Expenditure Committees. The South African approach has placed greater emphasis on political involvement throughout the process than is the case in many other countries. The MTEF has endeavoured to involve politicians in overseeing and managing the entire process, for the first time creating a link between policy planning and budget drafting. This required overcoming a certain resistance on the part of politicians, partly by keeping the process simple and accessible, and making explicit the political accountability involved (van Zyl, 2003).

The National Treasury led by the Minister of Finance took the lead in introducing and coordinating the MTEF process. Even though it had opted for a cooperative process that is mediated by various intergovernmental and inter-sectoral forums, it remains the driving force in the creation and coordination of these forums.

The MTEF was implemented across all departments as opposed to a focus on getting it right in some sectors. The Treasury was of the opinion that there were more benefits to getting estimates from all spending agencies than accurate analysis within a restricted number of sectors. There seems to be rationality in this – sectors differ so that lessons learned in some areas may not be easily transferred to analysis of other sectors.

Given the transitional state of local government at the time, the MTEF process was not introduced in this third sphere of government.

As van Zyl (2003) shows, the MTEF process in SA is a combination of a 'top-down' and 'bottom-up process. Indicative aggregate envelopes, both government-wide and sectoral, are established before any individual spending bids are considered. A single ceiling is set for recurrent and capital expenditure and departments are expected to accommodate the uneven nature of capital expenditure in their three-year planning and projections. Once the bottom-up planning process is completed, Cabinet and provincial Executive Councils however, do consider and revise these envelopes. Subsequently spending agencies go through another round of planning based on their finalized allocations.

The MTEF and budget processes are integrally related. All draft budgets and bids for additional funding are required to include a consideration and projection of their medium-term impact. The rolling process restarts shortly after budgets have been table din Parliament.

Political consultation in the budget process takes place through the Executive (in the formulation of the budget) and the legislature (in the legislation of the budget) After the budget is tabled in Parliament, parliamentary debate on the budget takes place. The Budget is first sent to the National Assembly Finance Committee, which has seven days to hold public hearings on the budget and compile a report for Parliament. Portfolio Committees also hold hearings on individual votes. The Finance Committee presents its report to the whole National Assembly, and the budget is debated for about a week. Once the National Assembly has voted its approval, the budget passes onto the National Council for Provinces (NCOP). If it gets a positive vote from the NCOP, it is passed on to the President for signing (van Zyl, 2003).

MinComBud is the most important vehicle through which political involvement in the MTEF process is achieved. MinComBud is a formal sub-committee of the Cabinet that considers policy changes with budgetary implications before making collective recommendations to Cabinet. Cabinet makes all the final decisions on Government's medium-term policy and spending priorities. This includes the macro and fiscal framework, the Division of Revenue, the MTBPS and changes to the medium-term allocations to national votes and provincial governments. Discussions on the provincial policy priorities and the finalization of provincial department allocations take place in provincial Executive Councils (van Zyl, 2003).

The MinComBud plays a key role in generating political support for the budgeting process. Some of the policy and budgetary issues they consider include the government's medium-term policy and budgetary priorities, the macroeconomic and fiscal framework, and the Division of Revenue between the spheres of government, the MTBPS and recommended changes to the MTEF allocations to national votes.)

Immediately after the budget has been tabled, provincial and national departments revise their strategic plans for the next three year period. These strategic plans are an innovation of the previous year's budget cycle and are intended to form the policy framework within which budgets and new bids are prepared. Strategic plans also contain performance indicators that are supposed to reflect the policy goals contained in the strategic plans. In mid-April, the NT sends out guidelines to all national departments and provincial treasuries for the preparation of the budget submissions. At this stage, provinces and national departments receive their indicative allocation on the basis of which they start their first round of planning.

From April to August national and provincial departments prepare their MTEF budget submissions. National departments have to follow specific guidelines and formats in preparing their MTEF submissions, while provincial treasuries circulate their own guidelines for provincial departments' MTEF submissions. The national Treasury regulations determine that budget circulars issued by provincial treasuries must be consistent with any budget circular issued by the NT to provincial treasuries.

Joint sectoral committees (the so-called "4x4s"), which examine spending trends in a sector and model the anticipated budgetary effects of new policies. Sectoral and treasury officials from provincial and national governments are represented.) meet in June and July to discuss and formulate recommendations regarding key provincial spending pressures and the implementation and administration of conditional grants. Committees exist for the Health, Education and Social Development sector. Efforts have also been made to establish Housing, Infrastructure and transport committees. The findings of these committees guide and support provincial and national departments in the preparation of their budget submissions (van Zyl, 2003).

Between June and September, discussions take place between the three spheres of government on two key issues:

- The overall budget framework, including fiscal policy, growth in overall spending, inflation projections and debt servicing costs;
- The division of revenue between national, provincial and local government, i.e. the vertical division of revenue.

A Division of Revenue (DoR) workshop takes place in early August. The DoR workshop reviews the macroeconomic and fiscal framework, main conditional grants to provinces and primary spending pressures on each sphere of government. The workshop is chaired by the NT's DG and attended by national departments, provincial treasuries, and local government representatives.

Also in September, the Budget Council and Budget Forum (the local government counterpart of the Budget Council) meet to discuss the fiscal and macro framework and the respective provincial and local government allocations. MinComBud presents its recommendations to the extended Cabinet at the end of September. Cabinet's comments on the fiscal and macro framework and the DoR are taken into account when MinComBud prepares the revised memorandum on the DoR which is then decided on by Cabinet in mid-October in preparation for the presentation of the MTBPS.

Provincial and national Medium Term Expenditure Committee (MTEC) hearings take place in August and September and are responsible for evaluating the MTEF budget submissions of departments. They look at how departments are proposing to reprioritize within the baseline allocations. Departments are also permitted to present 'options' in their submissions for increases or decreases in MTEF allocations. The MTEC hearings' outcome is recommendations to the Minister of Finance on changes to the MTEF allocations to national departments based on the macro and fiscal framework and the DoR. Provincial MTEC hearings also take place in September and follow the same procedure, with provincial executive councils making final decisions about departmental allocations (van Zyl, 2003).

(The Technical Committee on Finance and the Joint Sectoral Technical Committees – '4x4s – support the Budget Council. The purpose of these teams is to improve intergovernmental relations and the exchange of information, with a long-term perspective on spending and policy. They are advisory bodies and do not have decision-making powers.)

At the end of October, the Minister of Finance reviews the MTEC's recommendations on changes to the MTEF allocations to national votes and tables these before MinComBud.

The Finance Minister also reviews the final allocations to provincial and local government, and tables these before the Budget Council and Budget Forum respectively. Cabinet meets in early November to discuss the recommendations of the MinComBud, the Budget Council and the Budget Forum. Cabinet makes the final decision on the changes to the MTEF allocations of national votes, as well as the final allocations to provincial and local government. In mid-November these allocations are set out in Treasury letters to national departments and provincial treasuries. Departments and provinces subsequently adjust their budgets as a result of the above process.

The MoF tables the MTBPS before Parliament at the end of October, together with the Adjustments Estimate. MinComBud first meets to discuss the outline and key themes of the MTBPS in early October. The MoF drafts the MTBPS and, together with the Adjustments Estimate, it is considered and approved before being tabled before Parliament.

The MTBPS is the end result of the first, and relatively closed, round of budget planning. While its contents cannot be directly influenced by parliament and civil society, it does serve the purpose of publicizing government thinking before the tabling of the budget in February.
The final stage of the budget process involves the preparation of the budget documentation that is tabled before Parliament on Budget Day, and the budget documentation that is tabled before provincial legislatures. In December, national departments are required to submit the first draft of their chapters of Estimates of National Expenditure and provinces to submit the printer's proof of their budgets.

At he beginning of January the following year, the draft DoR Bill is submitted to the FFC, provincial finance ministers and local government representatives, before it is approvaed by Cabinet. In February, the National Budget together with the DoR Bill and the Estimates of National Expenditure is table before Parliament. Provincial budgets are tabled before the provincial legislatures in February and March.

The introduction of medium term expenditure planning in the 1998 budget year extended the annual agency and programme forecasts to cover a three year period. The MTEF covers a three-year period that starts with the year for which the current budget is being prepared and includes the two subsequent financial years. Every year the first year of the MTEF is voted into law as the budget. The next year, 'year two' becomes the baseline for the new budget cycle and a new outer year is added to make the new three year MTEF.

The out-year estimates of the South African MTEF are indicative allocations of funds to the sector/agency/programme for those years. In the first few years of the MTEF these numbers were too unreliable to be really used as indicative allocations, but the idea was that they should ultimately be used in this manner.

As a result of the close integration of the budget process and the MTEF planning cycle, the structure of expenditure and financing categories are identical in the budget and the MTEF. The pre-budget statement (MTBPS) presents the data in a more aggregated form than it appears in the provincial and national budgets themselves, but the disaggregated data are presented in the budget documentation that is presented when the budget is tabled.

Currently, the documentation that is submitted annually to Parliament on Budget Day includes a DoR Bill, an Appropriation Bill and a Tax Amendment Bill, backed by the Estimates of National Expenditure, the Budget Review (an analysis of budget policy), and the Budget Speech. Consolidated national data is published in the Budget review, while Estimates of National Expenditure provide data and contextual information, including performance information, for each national vote/department.

Provinces prepare their own budgets which they submit to their provincial legislatures. As from 2002, the provinces are required to publish Budget Statements One (equivalent of the national Budget Review) and Two (equivalent of the Estimates of National Expenditure), which provide an overview of the provincial socio-economic context, consolidated budget information, revenue and expenditure information, as well as performance information, for each department. These documents are supported by a Budget Speech.

The two out-years are generally rolled over directly as baseline for the budget planning of all provincial and national departments. The allocations for the new year 3 are calculated by adding a standard adjustment for growth and inflation to year 2. Baselines could also be adjusted in the Adjustments Estimates as a result of unavoidable and unforeseen expenditure such as floods and epidemics.

The general approach of the NT has been to emphasize stability, smooth growth and minimal changes to the baseline. There has therefore been very little cutting of forward projections. If the provincial or national treasury has perceived excess resources in any one department the approach has rather been to avoid additional allocations to that budget, rather than cutting the baseline. This approach has been made possible by the large revenue over-runs and the resulting solid growth in expenditure over the last five years.

The NT sets overall limits for each of the national departments as well as each of the provinces. The provincial treasuries in turn set limits for each of their provincial budgets. SA does not have separate development and recurrent budgets, so separate limits are not set for these. Limits are also not set for capital and current expenditure. However, some provinces have been know to ring-fence capital expenditure or earmark specific revenues for capital expenditure – thus effectively setting limits on recurrent expenditure within the total envelope for the relevant department.

The aggregate limit and broad allocations in the budget is in principle the same as the expenditure figure from the MTEF macro projections. In SA this limit is provisionally arrived at and revised as firmer data become available throughout the budget process. Cabinet and MinComBud are involved in the discussion and ratification of each of these revisions.

The setting of ‘measurable objectives’ as part of the budget process was introduced in 2001 and is still in the process of refinement. Currently the emphasis is still on making sure that inputs reflect policy. The phasing in of performance indicators has been done by specifying a minimum standard for each budget cycle.
Another important feature of the SA system is that there is no intention of setting up a system of outcomes based budgeting. While departments are asked to draw direct causal links between inputs and outputs, they are only expected to explain how and to which desired outcomes their outputs would contribute. The Treasury in particular places emphasis on the complexity of the linkage between outputs and outcomes and does not intend holding service delivery departments responsible for specific outcome targets. So the key question that is asked is which mix of outputs would best contribute to reaching a specific outcome, but this question is only answered indicatively. There is no direct mapping of outputs to outcomes.

7.4 Conclusions

As described earlier, a key feature of the South African budgeting landscape is the development of appropriate institutional mechanisms for budget development, implementation and evaluation. These institutional mechanisms include the following:

- Budget Council, comprising the Minister of Finance, provincial ministers of finance, the FFC;
- Budget Forum: Budget Council plus representatives of local government;
- Sectoral Forums comprising national and provincial ministers (e.g. Education, Health, the so-called MinMecs);
- MinComBud at the national level; and
- MINTEC at national and provinces

Monitoring of budgets and expenditure takes place at various levels. Important institutional mechanisms in this regard include the following:

- Parliament – Standing Committee on Public Accounts
- National Line Departments
- Auditor-General

In summary, the major strengths of the South African system are the following:

1. A functioning MTEF;
2. Strong and varied institutional mechanisms for budgeting at the national, provincial and inter-governmental levels;
3. Provincial and local government funding formulae that prevent political influence in the allocation of resources; and
4. Strong monitoring of expenditure capacity

The weaknesses of the South Africa system may be summarized as follows:

1. Planning – ad hoc, lacks coordination
2. Monitoring of outcomes – weak, inadequate capacity
3. Capacity of sub-national governments (both provinces and municipalities) to spend, especially capital budgets, needs to improve.

As van Zyl (2003) points out, the main advantage of the absence of an explicit poverty reduction strategy is to have focused attention on re-prioritization within departments. Great strides have been made at targeting especially social service sectors at the poor.
The MTEF process is also still challenged by questions of sequencing. The main fault line runs between the political process of policy planning and the budget process itself. The most important innovation here has been the formulation of strategic plans in each department. These plans are intended to inform the allocation process continuously and force departments to think through the medium term implications of policy changes for the budget. In many cases, however, the formulation of strategic plans is still an exercise in compliance and is not being used as a management tool. As a result many of them are vague and not designed to inform the budget process (van Zyl, 2003).

What is of particular concern in the development and enforcement of these reforms is the lack of effective oversight by the provincial and national legislatures. The job of lead agencies in the process such as the Treasuries could be supported lot more by legislatures that engage with the non-financial information provided by departments. Neither national nor provincial legislatures seem to have found a way to deal in a systematic way with the mass of new information coming their way (van Zyl, 2003).

As van Zyl (2003) points out, while there have therefore been key gains in operational efficiency, the debate around allocative efficiency are not nearly as well developed. This is evident in the absence of an overarching poverty reduction strategy.

8. TANZANIA

8.1 Economic Growth and Development Planning Parameters

Tanzania has exhibited a strong record of growth and has favorable prospects for achieving the UN MDG goals and targets including halving the major proportion of its people living on less than US$ 1 per day by 2015, especially if efforts to reform its rural economic base are intensified. The 2004 Article IV IMF Consultation noted that Tanzania had achieved an average growth rate of 6 % in 3 years (6.4% in 2004) with strong performance in manufacturing, mining and construction sectors. Inflation had declined by over 50 % over the past 2 decades to less than 5%.
As noted by Governor of the Bank of Tanzania, and the Finance Minister and underscored by the 2005 IMF Survey, Tanzania's strong record of growth is attributable to:

- Strong and consistent political leadership and direction in tackling the economic challenges facing Tanzania. Further as the former Minister of Finance, Basil Mramba said, a "cleaqr national development vision upon which donor support can be enchored is critical for ensuring that aid is well used."
- Restoration of macroeconomic stability, appropriate macroeconomic and monetary policies, is the foundation to economic growth and poverty reduction" according to the Governor of the Bank of Tanzania;
- Broad based liberalisation including the external account, removal of exchange controls and good agricultural prices;
- Large scale privatisation and transformation of the financial sector.
- Public expenditure management through the adoption of a cash management system and utilisation of sizeable donor support mobilised

Challenges remain growing out of donor dependence and meeting poverty reduction targets and becoming a self-sustaining economy. Structural impediments to high growth are low agricultural productivity, limited access to financial services and further strengthening of existing institutions and procedures. In particular, human resource capacity constraints and importance of developing sound institutions for sustainable growth, some weaknesses in governance and sluggish private sector growth are major areas for attention.

Household budget surveys show only modest improvements in incidence of poverty and per capita incomes. In the first half of the 1990s there was a deepening of poverty, whereas with the acceleration of growth in the second half of the 1990s there was a stronger poverty reducing impact. Declines were experienced in Dar-es-/Saalam. The household budget surveys indicated that by 2001/2001 about 36% of Tanzanians were living below the poverty line in 2000/01; only 3 % points less than in 1991/92. The incidence of poverty in rural areas decreased from 41 to 39 %; in Dar-es-Salaam, from 28 to 18 %.
If MKUKUTA (Swahili for the National Growth Strategy) poverty targets for 2010 (% of population below basic needs poverty line reduced from baseline estimate of 36% to 19%, % of population below food poverty line from 19% baseline to 10 %, GDP growth rate baseline 4.9% to 6-8%, agricultural growth rate 3.4% in 2000 to 10%, inflation rate 5.9% to 4% and % of working age population not currently employed from 13% baseline to 7%) are to be met, the Poverty and Human Development Report says that it is "clear that poverty reduction needs to be accorded critical priority and accelerated. Since poverty reduction is sensitive to growth, a strategy must be put into place for high growth for a sustained period of time." The Report recommends a 6% per annum growth rate in agriculture (in 2004 the economy grew by 6 %) and the adoption of broad based growth strategies to boost rural incomes in the other sectors. Low levels of education and literacy among smallholders, price incentives, greater investment and institutional arrangements must be strengthened.

Primary education retention rates need to be improved; increased teachers and strengthened tertiary education are needed. Recent data points to high maternal mortality rates and lack of human resources for health care. The estimated poverty elasticities are lower for rural than for urban households since the same rates of growth cause a smaller reduction in rural poverty rates given the depth of rural poverty (World Bank, Country Economic Memorandum).

Partly as a result of increased public expenditures on education and health (social services increased by .7% of GDP in 2003/4; with a major increase in recurrent expenditures on health and allocations to regions, each of which increased by .3 % of GDP, URT Public Expenditure and Financial Accountability Review) there has been considerable progress in some basic indicators, namely, primary gross enrollment rates went from 78 in 2000 to 106 in 2004, surpassing the Poverty Reduction Strategy (PRS) target for 2003. During the same period, net primary enrollment went from 59 to 91, achieving the PRS target of 90. Indeed, by the end of 2006, a 5 year plan target to achieve universal basic seven-year education is expected, 9 years ahead of the MDG target. Coupled with this has been an improvement in the quality of school buildings, a fall in the cost of schooling, and an increase in the number of classrooms. The enabling environment indicators: pupil-teacher, pupil-desk and pupil-classroom ratios, reflect the improved teaching environment and are improved indicators of the quality of education delivered. Qualified teachers have increased and there have been dramatic improvements in reported PSLE pass rates. However, availability of textbooks and qualified teachers, compared to increased number of pupils.

In health, recent data indicate significant reductions in infant and under-five mortality and more modest reduced rates of child malnutrition. Increased public expenditure on health clinics, medicines and service delivery has helped. The lack of qualified human resources for health care is a major limiting factor in implementing health policies and health reforms.

Alignment of public expenditure to support MAKUKUTA's growth and poverty alleviation has been impressive during the past two fiscal years, yet the strategic focus needs to be sharpened through better regional targeting to address geographic disparities and quality spending on infrastructure is important for quicker and sustained growth according to the Public Expenditure and Financial Accountability Review (paras 9-14).

With regard to poverty monitoring systems, which are in place, the Report recommends a wider range of indicators to assess progress in monitoring growth in the rural economy and indicators of governance and health. A revised comprehensive monitoring system is expected to be finalised this year, with results based indicators refined and applied. More systematic information, household budget surveys and analytic work is needed to guide strategies for broad based growth. Work is being undertaken to develop an agreed set of governance indicators which is one of the key cluster areas of MKUKUTA.

In addition, modelling poverty reduction is being done under the HIPC CPB programme which seeks to take into account prospects of decreasing the existing debt and implementing new external and domestic financing on the one hand, while dealing with the financing needs which stem from macroeconomic as well as poverty reduction forecasts (see Modelling Poverty Reduction, Publication no. 9, HIPCCBP). This integrated model for poverty analysis developed by the World Bank which helps analyse the impact of policies and external shocks on the distribution of income and consumption, could be applied by the External Debt Section of the Ministry of Finance as part of the overall poverty monitoring effort. Now that Tanzania has reached the HIPC Completion point, with most of its debt stock cancelled or rescheduled, the Debt Section is turning its attention to financing needs for poverty reduction among others.

8.2 Public Expenditure Management and Poverty Reduction

It is clear that an integrated accountability framework with defined measurable performance indicators to determine whether financial and human resources are maintained and managed effectively is essential to good governance, public sector management and economic growth.

Since 1996, Tanzania has been committed to poverty reduction and public sector management reform through 4 major programmes: Public Service Reform Programme; Public Financial Management Reform Programme (PFMRP); Local Government Reform Programme (LSRP); and the Legal Sector Reform Programme. All these programmes aim to achieve the same development goals of high economic growth and quality service delivery. The government wisely chose to emphasis the PFMRP by improving macroeconomic stability and promoting best practices in public accounting, budgeting and financial management policies and practices thereby creating the conditions necessary for poverty reduction and promoting economic growth.

IMF Article IV Consultations point to the significant improvements in budgeting, public expenditure management and fiscal decentralisation in helping spur economic growth with sound economic management systems, procedures and policies. All of the above Programmes are supporting this effort. For example, the Public Sector Reform Programme supported the PFMRP, through cost containment and rationalising the organisation and scope of ministries to affordable levels. It also formulated a new policy of decentralisation and local government in Tanzania. Similarly, the Government is in the process of developing and implementing a strategy for fiscal decentralisation by the Local Government Authorities as an integral part of the Poverty Reduction Strategy. The interventions seek to establish a system for allocating development and recurrent grants equitably and transparently and for providing incentives to improve governance, accountability and compliance with statutory requirements. Both the LGRP's fiscal decentralisation initiative and the PFMRP share common goals of promoting decision-making and accountability for resources to lower levels with the aim of improving ownership for greater sustainability of programmes and services. Improved transparency and predictability of resource flows are essential for effective resource planning and fiscal management.

The introduction of the Integrated Financial Management System (IFMS), the adoption of the Medium Term Expenditure Framework in LGA's planning and budgeting, and the use of Government Financial Statistics coding structure are practical steps in devolving responsibility.

PFMRP's vision is to "sustain a high rate of economic growth, macroeconomic stability and poverty reduction."

The first phase of PFMRP focused on reforms in accounting, budgeting and revenue mobilisation. Broad based participation was enshrined in the Public Expenditure Reviews (PER) which have been carried out since 1997/8 with all key stakeholders involved in policy debate and budgetary allocation of public resources. The PER process is led by the Ministry of Finance and operates through a Working Group comprising representatives from the Government, the private sector, members of Parliament, development partners, research and academic institutions, faith organisations, NGOs and the media. The Working Group helps set the agenda and participates in the strategic prioritisation of public expenditures across programmes and projects. The PER process has achieved greater transparency throught its consultative process, client surveys, contestability in Government service delivery, disclosure of Governmernt financial reports, budget allocations and expenditure to the media and on the Ministry of Finance web-site (see Reforming Tanzania's Public Administration, Stakeholder's Conference Report, October 2004 for more information on the Ministry of Finance, Public Service Management and Regional Administration and Local Government reforms).

The Medium Term Expenditure Framework (MTEF) introduced in 1999, has a 3 year rolling basis and has proven essential in guiding resource allocation use. It combines the development and recurrent budgets and is guided by a rigorous and participatory PER process. One of the key steps Government took to strengthen PER management was to centralise the Government's payments system through a Treasury Single Account/Single Accounts System and to introduce the Integrated Financial Management System (IFMS) to support the new payments system. It amended the Public Finance Act to provide a regulatory framework for doing so. The IFMS system has operated admirably in Government and is being applied by LGA's. The national budget based on the MTEF is fully automated. The IFMS has helped ensure there is no commitment before budgetary approval and actual allocation of funds to the intended ministristries, agencies and local government authorities. It also strengthened the capacity of sector ministries to record, monitor and control expenditures. The system is still being rolled out to the regions and districts. These measures have contributed to macroeconomic and fiscal stability resulting in higher economic growth and control of inflation. There is evidence of increased predictability of resource flows and improved data on commitments and projections of resources.

For example, in 2003, 70 % of development partners indicated their planned aid releases for the next 3 years with 80 % of total amount committed being disbursed during the first half of the financial year. This development has facilitated the smooth release of government funds during the year and as aid delivery modalities have switched to General Budget Support, continued progress can be made. However, the presence of parallel reporting systems and the adoption of one reporting system is still problematic and is a high priority of the Ministry of Economic Cooperation and Poverty Reduction (see pps 45-46 of ESRF report on Enhancing Aid Relationships in Tanzania, IMG 2005).

The PFMRP has entered a second phase to deepen the ongoing reform process to cover: procurement, information and communication technology services, investment management and external audit services. These measures constitute the Second Generation Financial Sector Reforms with the Bank of Tanzania taking a leading role in implementing the reform measures detailed in the roadmap of that Programme. Its intention is to consolidate and deepen reforms at the LGA level and in government agencies.

The PFMRP and the Public Sector Reform Programme are linked through issues of pay reform, human capital management, MTEF/Performance Management System and strengthening of capacity of the Ministry of Finance. The purpose of the Human Capital Management Information System is to improve access and control over core HR data and operational data. An integrated HR and payroll system is being implemented with a set of input, output and outcome indicators.

2005 marks the 7th year in the implementation of the participatory PER process in Tanzania. It has evolved and been constantly refined throughout.

The design of the PER work programme in August 2004 took into account the concerns raised by stakeholders in the first review of the poverty reduction strategy and the preparation of MKUKUTA or the new National Strategy for Growth and Reduction of Poverty (NSGRP). PER needs to be fine-tuned to better support Tanzania's poverty reduction strategy. MKUKUTA has moved from a sector-based approach to a cluster approach; namely strategy for growth and reduction of income poverty, the quality of life, and social well being, governance and accountability. It has incorporated a results –based management system into a comprehensive system for monitoring progress which incorporates outcome as well as input and output measures. This change coupled with expenditure reviews and poverty assessments require translating MKUKUTA into the medium term budget strategy to better link policy and resource allocations by strengthening the formulation of that strategy and the strategic nature of the budget guidelines as a comprehensive instrument for medium term public finances allocations.

The cross-sectoral nature of the ministerial interventions presents particular challenges.

More coherent strategies require even closer collaboration, and identification of cross cutting areas not yet done. The budget guidelines process needs further strengthening in terms of expenditure classifications, decision-making processes; sector PERs and the development of the Strategic Budget Allocation system and improvement in levels of compliance. These recommendations are included and vetted in the first integrated public expenditure and financial accountability review in 2004/2005 which was undertaken in accordance with Government's desire to harmonise all external reviews on budget and financial management systems. The report was a joint report with the other donors working in conjunction with development and non-governmental stakeholders alike. The external review covered both a public expenditure review of performance for 2003/04 and the first half of 2004/2005 and a review of the Government's efforts to translate MKUKUTA into a comprehensive budget strategy through the Budget Guidelines process.

The institutional roles and functions and coordination arrangements of the ministries, departments, agencies and local authorities and other key actors need to be clear and an institutional framework adopted which is utilised by key stakeholders in the development planning process. Generally these arrangements are in place. Institutionally, responsibility for formulating, coordinating and implementing the PFMRP strategy and work plan, financial management of its resources and tracking and evaluating progress rest with: Inter Ministerial Technical Committee; Interministerial Working Group; Joint Steering Committee and Technical Steering Committee. The Interministerial Technical Committee is chaired by the Chief Secretary and includes all Permanent Secretaries and is responsible for leadership and policy oversight. The Interministerial Working Group is chaired by the Permanent Secretary in the President's Office and the Joint steering Committee by the Permanent Secretary of Finance. The latter meets quarterly.

Clearly, Tanzania's PFMRP has a number of laudable operational mechanisms and institutional lessons for countries wishing to improve their PER systems. Its budget process is often up-held as a strong example for neighboring countries in Eastern and Southern Africa. Key reform areas mentioned are the IFMS, the MTEF systems and the mechanism of expenditure control through the centralised payments system. These systems dramatically reduced opportunities for spending public monies outside the framework of the approved budget. Assessments of Tanzania's financial reform efforts have generally been positive and qualified Tanzania for general budget support form multilaterals and bilaterals alike. Institutional arrangements for coordination and collaboration are working and the explicit linkages between the PFMRP and Public Service Reform and Local Government Reform Programmes are providing much needed complementarity in support of the PFMRP initiatives. These include in particular, fiscal decentralisation, HR and pay reform and performance management systems. Finally, the Government and development partners' decision to move to a new national strategy for growth and poverty reduction and to adjust the budget, PER process and monitoring system merits attention and provides valuable lessons for countries seeking to better address their MDG and poverty alleviation targets.

8.3 Development Planning, Public Sector Management Reform and Other Key Ministries

The Ministry of Planning and Empowerment plays a critical role in the budget and PER process. Whereas the Ministry of Finance is responsible for the budget and setting the resource envelope ceilings, the Ministry of Planning and Empowerment manages the formulation of the 3 year rolling plan and oversees the MTEF process and is expected to tackle the policy and planning issues associated with MKUKUTA. They are in the process of coming up with a comprehensive monitoring system for MKUKUTA. The Ministry of Planning has recently incorporated the Poverty Reduction Unit which previously was under the Prime Minister's office.

8.4 Local Government Reform Programme, Improved Financial Management and the role of Civil Society

Tanzania has been implementing a Local Government Reform Programme since 2000. Its main thrust is decentralisation of development by devolving fiscal, political and administrative authority. The Local Government Reform Programme (LGRP) is a cornerstone in the development framework which has been set up to achieve the objectives under the National Strategy of Growth and Reduction of Poverty (NSGRP) or MKUKUTA. Former President Benjamin Mkapa, in introducing the LGRP's new Medium Term Plan, said, "We clearly cannot improve the quality of life and social well-being without strong, well governed, effective and accountable local government authorities."

The Local Government Finances Act of 1982 (as amended in 2000) and the Local Financial Memorandum of 1997 set out the framework for transparency in financial management at the local level. Local authorities are required to advertise in the media and/or post information on council noticeboards including funds received from Government, expenditure, budgets and audited accounts. Moreover, the public is to participate in planning and budgeting of council activities. District Council development plans and budgets are discussed and adopted by Councils. Council plans are to consolidate village and street plans.

The Research on Poverty Alleviation (REPOA), October 2005 Brief, provided a status report on the implementation of the legal and policy framework particularly as perceived by the recipients. It found that the Councils are largely fulfilling their responsibilities in holding meetings, posting information and sharing information. However, research showed the budgetary figures were in lump sums and it was difficult for stakeholders to ascertain what the money was being spent on and there was a poor understanding of planning and budgeting concepts. The problems experienced at the District Council levels were replicated at the villages levels and a common problem was the lack of willingness to share information. While progress has been made in putting into place systems and procedures to ensure financial transparency, much remains to be done to improve access to information and accountability. Progress could be accelerated and has been inhibited, according to the IMG report (pps 14-15), by weak district planning, decentralisation and devolution has yet to be sufficiently internalized, and relationships between the district and villages in terms of planning and resource allocation need further work. There has been little progress in compiling actual expenditure data. Practical guidelines, digestable information and training were needed. Improved Ministerial coordination at the district level was a challenge as part of the decentralisation process.

REPOA's research findings point to areas of need and potential collaboration. Governance Notice Boards and indicators are new sources of governance data. These can and should be developed and used in Swahili.

Significant local government fiscal reform has been undertaken in adopting a formula-based system of allocating grants. Zonal centres have been established to assist Local Governments with improved financial management, and the fiscal year for central and local government authorities has been synchronised.

Civil society groups need to further strengthen their roles and functions in assisting in development planning and implementation at the district and local levels. For example, civil society organisations could help undertake some of the training and interaction with villages and in assisting in coordination and providing feedback. It is important to see how their capacity can be strengthened to participate effectively in the policy dialogue and the movement for increased domestic accountability.

Tanzania provides ongoing best practices and lessons learned in the devolution of financial planning, authority, information exchange and participation, which can be drawn upon and applied.

8.5 Cooperating Partner Support, Aid Coordination and Policy Dialogue

Generally, the Government of Tanzania and its development partners have gone a long way in instituting best practices for donor coordination and participation in development planning, financing and improved coordination. The results of this collaboration and its monitoring are captured in the Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability, High Level Forum February 28-March 2, 2003), the adoption of the Joint Assistance Strategy (JAS) agreed by all the major stakeholders and the Final Report of the Independent Monitoring Group on Enhancing Aid Relationships in Tanzania, 2005.

In 1997, the Government of Tanzania (GOT) and its development partners (DP) "agreed on taking medium term action to redefine GOT - DP relationships in conceptualising and managing development and in the broader definition of local ownership of the development agenda as well as in enhancing transparency and accountability in the delivery and utilisation of aid." (ESRF, IMG Report, Introduction).

The Government decided to take a more active leadership role in managing the development process and in turn recognised the important role which DP had to play. This agreed medium term strategy was defined in the Tanzania Assistance Strategy, which provided the framework for strengthening donor coordination, harmonisation, partnerships and national ownership of the development process over the ensuing years. According to the IMG Report (introduction), the TAS provided a 3 year strategic national framework covering the national development agenda, best practices in development cooperation and a monitoring framework for implementation. Interestingly, the Government and developing partners agreed to institute a monitoring and evaluation framework to review progress in aid relationships including joint evaluations, an independent review mechanism and joint action plan to implement the recommendations of the IMG reports. One of the recommendations of the IMG is that more needs to be done to formalise the follow-up process through a joint Secretariat.

The IMG Report Executive Summary recognises that progress has been made in several key areas pertinent to the study, namely:

- Public resource management has improved considerably including the transparency and accountability of public financial resources and reduction of transaction costs as a result of donor harmonisation.
- Integration of national processes with sectors and local government is underway.
- Participation by all stakeholders in policy dialogue has been broadened and is becoming institutionalised including the regions.
- Encouraging progress has been made in the use of common review frameworks including the Performance Assistance Framework drawn from policy reforms and national priorities.

Challenges relate to aid modalities, retention of key staff, developing a policy on technical assistance and untying and reducing aid dependence further.

The recent adoption of JAS is an attempt by all key stateholders to move to a higher stage of attaining national ownership and leadership, reducing the transaction costs by enhanced harmonisation and alignment to national priorities including switching aid modalities to general budget support. JAS is to replace individual country assistance strategies and promote collective support for MKUKUTA. A code of Ethics for donors has been adopted. A monitoring and evaluation framework has been institutionalised. These developments represent major challenges but are feasible within the framework of existing public expenditure and poverty management systems, procedures and policies. The challenges pertain to coexistence of new and old financing modalities, increased transaction costs in the short run, reducing aid is dependent on well conceived "exit strategies", and institutional and human resource capacity building is a daunting task.

8.6 Parliament and its role in the Budget Process

Recent interviews with Tanzanian Parliamentarian revealed that they are generally positive towards the improved accountability and quality of the public financial management system due to more information, greater opportunity for involvement, changes in structure of committees and improved capacity. However, the extent of understanding of budgetary and public expenditure issues is weak. There is inadequate transparency over how and why decisions are made, especially with regard to budget reallocations. There are delays in receiving audit reports, and monitoring systems do not provide adequate information. In conclusion, the Study on Understanding Accountability in Tanzania concludes that Parliament's role in holding the executive accountable is not very effective. The formal mechanisms are in place but to be effective the system requires political leadership, the right type of information and incentives to make it right.

8.7 Conclusions and Recommendations

Tanzania provides a best practice example in the development of its public expenditure management system in response to the demands for a transparent and manageable system of financial and poverty reduction management. The results achieved in terms of system coherence, policy direction, poverty reduction, aid coordination and development planning and budgeting are evident. The benefits are considerable in terms of:

- Strengthened financial discipline, transparency and accountability;
- Improved commitments and disbursements;
- Harmonised and better coordinated donor practices and procedures;
- Medium term development strategy linked to public expenditure management and planning and improved composition of budgetary development outlays with increases in real terms to the education and health sectors;
- Decentralised financial management and accountability;
- The adoption of results-based management systems and monitoring of inputs, outputs and outcome indicators with improvements in enrollment levels, student teacher ratios and health coverage and prevention;
- A public expenditure management process which is inclusive, participatory and linked to poverty alleviation efforts with noticeable improvements in the urban and peri-urban areas and a reversal of poverty in the rural areas.

Tanzania has been able to take advantage of these benefits due to high level leadership, direction and commitment to economic development backstopped by a strong economic management team which has worked closely together in coordinating fiscal, monetary and development policies. The Ministry of Finance in particular has provided Government leadership and in asking development partners to be committed to national programmes and priorities. According to the ESRF's IMR report the level of ownership is high and there are clear organisational and information systems for aid coordination linked to the public expenditure framework.

Tanzania's experience underscores the importance of linking sound economic management to a positive enabling environment, a growth oriented development strategy and a robust poverty alleviation programme which is captured by and incorporated into an integrated comprehensive PER system.

The lessons learned are being shared with neighbors in Eastern and Southern Africa including Zambia, Malawi, Zimbabwe and Uganda all of whose representatives have visited Dar to observe for themselves. The approach and systems adopted are being studied, applied in these and other countries and as applicable adopted to local country circumstance.

The major challenge facing Tanzania is to broaden and deepen its PER system and to achieve sustainability by tackling the acknowledged capacity building and institutional constraints which preclude its effective implementation. The PER system in Tanzania faces a number of human resource, systemic and resource efficiency challenges in implementation of its National Strategy for Growth and Reduction of Poverty (NSGRP) or MKUKUTA including:

- The importance of strengthening the capacity of the Planning and Empowernment Ministry which has responsibility for medium term planning, policy analysis and monitoring and evaluating the results of the MKUKTA Programme. In particular, young professionals and specialised expertise were needed to supplement existing planning officers. Cross-sectoral policy planning issues need to be addressed and the Ministry needs to pursue a proactive role in implementing its new mandate. A programme of recruitment of Tanzanian economists and social scientists coupled with short term and in service training is advisable. Incentives for the retention and effective utilisation of capacity are crucial in this regard both for development planners and public sector managers responsible for implementing agreed poverty alleviation programmes.
- Stronger harmonisation and coordination among Governmental agencies to ensure consistent policies and effectiveness use of scarce human resources is a continuing challenge.
- Budget consistency with actual expenditure – although budget deviations are inevitable, the degree of deviation has varied and fluctuated with development expenditure variance rates that need to be reduced to assist spending managers when planning and implementing development activities.
- The NGOs and civil society groups participating in MKUKUTA need to better coordinate their efforts and articulate their views as key participants in the process of developing and helping implement the MKUKUTA programme. In particular, some of the groups have difficulty formulating and expressing their views. Their low technical capacity was apparent and has constrained the effective participation of domestic stakeholders in the PER process. A number of international NGOs do not report on their activities and finances, and are left outside the PER process by virtue of self exclusion. Moreover, the composition of their expenditures often leaves too few resources for programmes which could better assist MKUKUTA. Whereas the working group on policy analysis and coordination does coordinate effectively, the service delivery NGOs are not as transparent and participatory as they otherwise could be. In addition, the private sector needs to play a more active and prominent role in the MKUKUTA process.
- Strengthened decentralisation of development planning and improved financial management and information sharing to the local authorities and councils is a continuing challenge where capacity constraints, weak remuneration and lack of coordination with line sectoral ministries precludes service effective.
- Greater sharing and exchange of knowledge and experiences and increased access to

regional and international expertise is essential. A knowledge management and networking programme embracing all aspects of PER management best practices in the region and globally would help accelerate and sustain the positive results to date.

- Greater use of collaborating partners, technical and financial, which support a demand driven medium term PER Capacity Building Programme would be welcome. At present such assistance is largely once-off and targeted towards one aspect of a comprehensive PER system. East AFRITEC, MEFMI, AERC are examples of regional partners with training, technical advice and operational research whereas the ESRF, REPOA and others are locally based and the World Bank World Development Institute, the IMF Training Institute, the Maastricht Centre for Economic Management and Capacity Building Policy Analysis and Institute of International Finance are international examples providing short term courses.

These challenges reinforce the findings of a recent World Bank Africa Capacity Development Operational Task Force Report which concluded that "capacity development remains a binding constraint despite substantial donor support and concerted developing country efforts. Implementing successful Poverty Reduction Strategy Programmes and achieving the Millennium Development Goals underscores the need for stronger institutions in Africa." Promising new approaches in public expenditure accountability like those adopted in Tanzania need to complemented by stronger institutions and enhanced capacity coupled with incentives and effective utilisation of capacity. In addition, it is clear that strong government leadership and clear institutional and organisational and information systems for aid coordination are essential. Also country-led partnerships are more likely to be effective where partnerships are institutionalised to strengthen civil society, the private sector and governance structures (WB, 2003). This represents an enduring challenge.

8.8 Recommendations

Because of the economies of scale which come from collaboration, the commonality of PER needs in the region and the presence of existing regional organisations in the Eastern and Southern Africa, including SADC and the Eastern African Community, it is recommended that a programme of technical and financial support be adopted, resources mobilised and applied in a concerted way.

To provide a sound basis for this support a broad based PER and Poverty Alleviation country needs assessment would assist in identifying the country specific gaps and priority needs. Prior to undertaking a country specific needs assessment, a common capacity building framework should be developed and tested with respect to requirements for PEM and Poverty Reduction. Thereafter, a medium term programme could be developed and costed to provide a country specific basis for proceeding. Such country assessments could also be carried out in other countries in the region and a consolidated overview of common problem areas could be compiled and utilised in support of a regional response. Based on the findings and recommendations, inservice and basic training courses, specialised technical assistance, country visits, high level seminars and Executive Forum series could be undertaken and results monitored and evaluated systematically.

Such an approach has been previously and successfully applied in the field of debt and reserves management by the Macroeconomic and Financial Management Institute of Eastern and Southern Africa and by the West Africa Financial Management Institute. MEFMI is a regional international organisation covering 13 countries in Eastern and Southern Africa which has as its core business financial and macroeconomic management and capacity building. Tanzania is a member of its Board and has benefitted from its programmes.

MEFMI's capacity building framework and programmes in debt and reserves management provide useful guidelines and capacity building and evaluation frameworks upon which to build. At present, MEFMI is compiling a public expenditure management best practice hand book and has in the past provided short term public expenditure management courses with the assistance of the World Bank World Development. AFRITEC which is based in Tanzania is providing PER assistance to Tanzania and other countries in the region have expressed interest. In addition, IMF and World Bank economic missions regularly carry out periodic reviews of the PER and budget management systems up-dating their data bases and utilising the information for country analysis.

In the past, MEFMI has dedicated its capacity building efforts to debt and reserves management, particularly in central banks. A similar dedicated effort with Ministries of Finance and Development Planning and Local Government Authorities would be appropriate and timely. MEFMI has indicated its willingness to support such a PER programme providing its Executive Committee and Board concurs. Similar support has been indicated at the Third Annual TAPNET Meeting, including WAIFEM as well which indicated it was interested in developing such a programme.

This Tanzania study provides a best case senario upon which to build and enable Governments to better manage and apply their development resources. Existing regional organisations are poised to assist providing the senior most economic managers decide they wish to support and respond to their country and regional demands for an enhanced PER capacity building initiative which is owned and driven by themselves and builds upon the lessons learned and opportunities for further improvement and results.

9. Benin

The main reason for developing an MTEF was to address the strategies formulated in the Poverty Reduction Strategy Paper (PRSP). The first MTEF developed in Benin was for the period 2002-2004 (Karlier & Jennes, 2003).

In Benin, the budget reform started in the 1990s included:

- The introduction of a unified budget;
- Harmonizing the Organic Budget law and its public accounting regulatory framework, within the West African Economic and Monetary Union framework;
- Introduction of programme budgeting;
- Implementation of an MTEF, which would provide the basis for the preparation of the annual budgets;
- Semi-annual monitoring of execution of the 2001 budget;
- Performance audit of the program budgets;
- Delegating expenditure execution towards LMs and local governments, including the delegation of payments; and
- Financial information in functional classifications (Karlier & Jennes, 2003).

Benin has one ministry responsible for the recurrent budget (Ministry of Finance) and another ministry responsible for the investment budget (Ministry of Planning). There is a view that this separation of responsibilities undermines efficient budget execution, because of the absence of coordination between the two budgets. More recently, efforts have been made to integrate both budgets (Karlier & Jennes, 2003).

In Benin, the integrated budget is officially the responsibility of both MoF and MoP. In practice, it is MoF which prepares the integrated budget based on sector budgets provided by the line ministries. Although at the central level, the two budgets are integrated, at the level of the line ministry (LM), the recurrent and investment budgets are treated separately.

As an alternative to their former responsibility for the investment budget, MoP has been made responsible for the country's strategy formulation and hence is the "owner" of the PRSP.

As a consequence of the fact that the budget and the MTEF are owned by two different ministries, there is a constant battle for power. This situation leads to a lack of coordination between the MTEF and the budget. This is the primary reason for the delay in finalizing the PRSP and the MTEF.

The main players and their roles in the MTEF, the associated annual budget, and PRSP processes can be described as follows:

- MoF: Coordinator of budget preparation; formulation of macroeconomic framework; responsible for execution of payments.

- MoP: Coordinator of PRSP and MTEF; Coordinator of investment budget

- Line ministries: responsible for the LM unified budgets; and for the sectoral investment budgets (Karlier & Jennes, 2003).

The MTEF covers a time frame of three years. In Benin it is somewhat unique in that it contains two scenarios: one scenario (the restrictive MTEF) based on the macroeconomic framework and one scenario (the expansive MTEF) that starts from an estimate of the resources necessary to implement the PRSP (Karlier & Jennes, 2003).

The MTEF is meant to be a rolling framework, implying that the current year's budget execution will provide the basis of next year's MTEF. However, information on the budget execution becomes available at least nine months after the closure of the FY, and possibly much later. Therefore, in practice it is the *budget* and not budget execution of the current year, corrected for some deviations, that forms the basis of the MTEF (Karlier & Jennes, 2003). The MTEF and the budget are not always comprehensive, especially grants are not always included.

The MTEF and the PRSP are closely linked. The nature of the two policy instruments, however, is very different (Karlier & Jennes, 2003). The MTEF is formulated annually, whereas the PRSP may be revised much less frequently. Hence it can be stated that the MTEF is coordinated based on the underlying PRSP rather than the reverse (Karlier & Jennes, 2003).

Benin has a highly centralized structure of government. However, it has established local governments. However, the local governments do not prepare medium term revenue or expenditure projections. Revenues and expenditures are not presented in the central budget in any detail. A transfer to a local government is considered as having reached its final payment stage even when the money has not yet spent by the local government.

The quality of information provided in the budget is not very impressive. For example, the budget is not comprehensive. Not all grants are reflected in the budget and outturn data. Furthermore the budget does not clearly and explicitly present the key hypotheses of the macroeconomic framework (Karlier & Jennes, 2003).

In conclusion, according to Karlier & Jennes, the strength of the MTEF in Benin is its institutional integration in the budgeting process. The use of the MTEF as a reference to the setting the aggregate and sector ceilings should enhance aggregate fiscal stability. However, although institutionally the annual budget is based on the MTEF, in practice the link between the two is not very strong. This is partly caused by the fact that the budget and the MTEF are owned by different entities. This is a weakness that will not easily be overcome because of the difficult relations between the two ministries (Karlier & Jennes, 2003).
With respect to **allocational efficiency**: the MTEF serving as the quantification of the PRSP, has a definite impact on allocations towards priority sectors. The GoB interprets the concept of 'priority sectors' to include a broad range of sectors, and not only the standard priority sectors health and education. Also, the program budgets, which have reached an impressive state of development in some ministries (notably Education) are meant to increase allocational efficiency. With respect to the latter it is observed that the program budget approach does not yet focus on the PRSP. Furthermore, performance-auditing capacity has not yet been sufficiently developed.

Operational efficiency is assumed to be enhanced through the process of decentralization of public management, including financial responsibility. This process is not a direct consequence of the MTEF. However the effectiveness of the decentralized framework is questionable.

Strength of the MTEF in Benin is the vast public finance reform supporting it, including: the development of the program budgets, budget unification, computerization of budget execution, and the introduction of a functional budget classification. A weakness in this respect is the difficulty linking the program budgets to the classical budget (Karlier & Jennes, 2003).

Nevertheless, several improvements of the MTEF and related issues are possible:

- A budget calendar should be introduced including reference to the MTEF, stating that discussions will first be on the three-annual allocations of the MTEF after which the allocations for the first year will serve as the (indicative) annual ceilings;
- The link between the budget and the MTEF needs to be enhanced. To this end, all LMs should develop medium term fiscal frameworks;
- The link between the PRSP and the MTEF, although institutionally strong, should be reflected more in the MTEF allocations. The link between the PRSP and the MTEF could be enhanced by strengthening monitoring by other entities than the MoF and the MoP.
- Focus on poverty reduction at the central level on the level of sector allocations is not enough. To have an impact, the LMs should also focus on poverty reduction, reflected in their (program) budgets.
- The practice of incremental budgeting needs to be re-visited.
- Information on budget execution should be further improved.
- The quality or level of development of the program budgets of the various ministries should be made more even. Also, efforts should be made to develop the program budgets of the non-priority sectors (Karlier & Jennes, 2003).

10. Burkino Faso

In Burkino Faso, the MTEF constitutes a key component of the Public Expenditure Management (PEM) system. It was introduced in 2000 to inform the preparation of the 2001 budget. The MTEF is meant to provide a framework for the GoB's program budgeting system. Program budgeting has been introduced in six LMs starting with the 1999 budget. From 2002 onwards, all LMs are required to apply program budgeting (Jennes & de Groot, 2003).

It is evident that the PRSP drives the planning and budget processes. Each new proposed program starts from the question of whether it fits into the PRSP framework. Thus LMs linked to the PRSP – i.e. LMs involved in social sectors, but also in productive sectors and justice, are likely to see their budgets increase at the expense of other sectors.

Policy is expressed in the PRSP but implemented through the MTEF, i.e. mainly through the budgetary prioritization of social sectors. In Burkino Faso the sectoral approach (SWAP) has led to the drafting of 10 year strategy documents in the health and education sectors (Jennes & de Groot, 2003).

The weakest chain in the budget preparation process is the necessary interrelationship/ interdependence between Program Budgets and the MTEF. PBs need to fit within the macroeconomic framework of the MTEF while the MTEF needs to establish its sectoral allocations on the basis of the PBs prepared. Poor definition of PB objectives leads to a poor resource allocation by the MTEF. Priority ministries get huge resource allocations but often lack the capacity to spend these resources effectively/efficiently (Jennes & de Groot, 2003).

Gradual improvement of sector strategies and PBs is expected to improve the quality and relevance of the MTEF. Also, because of delays in MTEF preparation, LMs are unable to review their sector objectives on the basis of the ceilings fixed by the MTEF.

Generally, the PRSP provides the starting point for the elaboration of the program budgets (PBs), which in turn feed into the preparation of the general budget, after having taken into account the resource envelope provided by the MTEF.

The PRSP identifies a number of priority sectors, which guide MTEF allocations. Since GoB's budgetary system lacks a functional classification, the Finance Law does not identify specific poverty reduction programs (Jennes & de Groot, 2003). Burkino Faso belongs to the large group of low income countries for which it is only possible to establish a 'broad mapping' of budget data to the poverty-reducing spending categories defined in the PRSP. This means that poverty-reducing programs identified in the PRSP are approximated with the more aggregated budget data. Thus, while basic education, rural health and HIV/AIDS, and rural development are identified in the PRSP as poverty-reducing, data are only available for total health, capital spending on rural roads, women's welfare, and other social expenditures. Exceptionally, data are available for primary education as well as total education (Jennes & de Groot, 2003).

However, the PRSP has never been properly costed. Donors ask for its integration with the budget cycle and the Finance law. Nor does the PRSP include clear sector plans for example, agriculture and water.

The PRSP provides for an increasing part of the budget effectively accruing to the most de-concentrated structures, as well as for an annual survey on the execution of their budgets. Each local government entity is only responsible for the execution of its budget. The latter is however allocated centrally. Also the financial means of the local governments are lodged centrally with the Finance department.

Only some five percent of total expenditure and less than ten percent of health and education expenditures are implemented at the decentralized level. Moreover, there is no systematic exchange of information between the centre and the periphery on budget preparation or on budget execution. The central level is thus currently not able to satisfactorily track locally executed expenditures, i.e. due to reporting delays. Decentralization of expenditure is thus most advanced in the health and education sectors.

With respect to the quality of information available, it is generally timely but not reliable. Revenue projections are consistently overestimated. Burkino Faso needs a sound statistical apparatus of its own. Starting to develop a multitude of indicators as donors do in the PRSP process, is putting the cart before the horse, as the many parallel donor financed surveys show (Jennes & de Groot, 2003).

Nevertheless, it is evident that the GoB has made impressive efforts in recent years to make expenditures more effective, i.e. to bring them more into line with objectives. To this end, every year improvements have been built into the MTEF process (e.g. inclusion of a trend and a ‘voluntaristic’ scenario, interaction of HIPC resources, increasing disaggregation of envelopes contained in the MTEF documents) (Jennes & de Groot, 2003).

The major progress so far achieved by the introduction of the MTEF is that LMs respect their sectoral ceiling as provided by the MTEF while preparing their sectoral budgets. Previously, LMs practiced “blue-sky” budgeting, while the amount allocated in the actual budget was in the end only a fraction of the requested amount (Jennes & de Groot, 2003).

The core of the MTEF’s limited relevance so far is that revenue projections in preparation of the GoB budget tend to be overestimations. In addition to the harmful effect of these overestimations on expenditure planning, a large part of external financing disbursements tends to be delayed until the last quarter of the year.
Another threat to the MTEF is that, because most of the large amount of donor financing is excluded from the budget, the total amount of resources available to GoB is not known, which hinders rational allocation and prioritization.
The recurrent phenomenon of credit freezes during budget execution shows that decision makers do not feel bound by the ceilings in the annual budget and the MTEF, i.e. ceilings are not conservative enough. During budget execution, for various LMs the ceiling appears to lie at a lower level than predicted by the MTEF or even the annual budget. This is a major shortcoming of the MTEF and the budget system in general (Jennes & de Groot, 2003).

The MTEF was introduced to strengthen government’s PBs. Despite the introduction of PBs, the budget is still voted by Parliament within the ‘budget-object’ logic, as this is the nomenclature in which it is proposed to Parliament. However, the lack of integration between the program budgeting exercises and the MTEF exercise, together with the absence of a functional budget classification, considerably limit the impact of the MTEf exercise.

Neither the MTEF nor the PBs are transmitted to Parliament. Additionally, because of the few draft budget proposals based on costed sector policy documents and investment programs that are handed in, the MTEF/Budget committee tends to perform its ‘arbitrage’ on the basis of the MTEF, LM demands, past budgets and existing policies, rather than on the basis of policy change and potential new programs. No reference is made to PBs nor to results achieved, also because of capacity constraints within the Budget Committee (Jennes & de Groot, 2003).

Finally, the quality and availability of information needs improvement. Inclusion of the execution results of the previous budgetary year as well as estimates for the ongoing year would be desirable.

The origin of the 2000 PRSP was the need to indicate how HIPC resources would be spent. The main link between the PRSP and the MTEF process is that the PRSP prioritizes a number of sectors – i.e. education, health and rural development – which get allocated an increasing amount of resources by the successive METF exercises. However, the link between the PRSP and the MTEF needs to be strengthened, through a better translation of the PRSP into sectoral envelopes (Jennes & de Groot, 2003).

Since 2001 there has been an annual PRSP review to strengthen the link with the budget process. Based on the PRSP, prioritized and operationalized sector plans are being prepared, to be able to allocate budgetary means on a more rational basis)Jennes & de Groot, 2003).

11. Cameroon

The advantages and disadvantages of the budgeting process in Cameroon are described with respect to the three dimensions of public finance: aggregate fiscal discipline, allocative efficiency, and operational efficiency (Karlier & Jennes, 20003).

(a) Aggregate fiscal discipline

The strength of the budgeting process is the top-down structure of setting the expenditure ceilings. The result of this structure is that the aggregate budget envelope is perceived to be hard. Also in the budget execution process a top-down structure exists, with MoF in a central position.

(b) Allocative efficiency

A negative aspect of the specific top-down structure in Cameroon is its high level of centralization at MoF. With respect to the aggregate resource envelope this is a good situation, but with respect to the sector ceilings, it is preferable that these directly reflect political priorities, and not indirectly through for instance the Poverty Reduction Strategy (PRS). Hence, the sector envelopes should not be defined unilaterally by MoF, but should be defined by the Cabinet. However, this should not result in neglecting the aggregate resource constraint (Karlier & Jennes, 2003).

Another negative characteristic of the budget process with respect to allocative efficiency is the insignificant influence of Parliament in the budget formulation process. Partly this is a result of poor information on budget execution, which leaves Parliament with very limited information on actual budget execution.

As a result of limited insight in budget execution the budget formulation process is largely incremental, implying that the previous year's budget forms the basis of the budget to be formulated, and that budget arbitrage only concerns the additional resources available.

(c) Operational efficiency

The very strict budget execution procedures, which demand LM and government agencies on all levels to demand first commitment, then validation, and finally authorization before receiving payments does not provide incentives to be operationally efficient, but on the contrary provides incentives to be as inefficient as possible as long as the requirements are fulfilled. Furthermore, does the absence of responsibility of public institutions and agencies for part of their expenses, including salaries and maintenance of buildings provide a similar disincentive to act operationally efficient (Karlier & Jennes, 2003).

With respect to the MTEF in Cameroon, as preliminary as it is, the following can be concluded: a weak point of the MTEF is that, it is primarily the donor community that develops the MTEF through consultant units within the ministries. The absence of a link between the (draft) MTEFs developed and the budget formulation process, indicates that the objective of using the MTEF to confront policy (formulated in the PRSP) with budgetary constraints, is not supported.

A positive observation on both MTEF and budgeting process, is that a lot of effort is being put into 'getting the basics right', including the introduction of a functional nomenclature, and an IFMIS in order to be able to monitor expenditure. Furthermore, the structure implemented to manage HIPC funds, despite its shortcoming of not being integrated in the budgetary process, provides a good experiment of introducing more influence of civil society in the budgeting process (Karlier & Jennes, 2003).

The quality of financial information is one of the weakest aspects of the budgeting system. Budget execution reporting is the weakest part of the budget process, but preparation and especially execution are important shortcomings as well. For instance, the (draft) budget is considered unreadable, resulting from the budget nomenclature, and does not permit any sign of a strategy. Furthermore, monitoring budget execution suffers from a major deficiency in the budget execution reporting system, and is consequently virtually impossible. This may have an impact on the budget preparation and execution process; however, this impact cannot be specified (Karlier & Jennes, 2003).

With respect to the MTEF, it is clear that itwill remain a technical exercise as long as it does not include serious budgetary constraints, resulting from a political process. Hence, priority should be given to introducing a transparent system of annual resource allocation, without which an MTEF (Karlier & Jennes, 2003).

It is recognized that it may be politically more feasible to introduce the MTEF at a more decentralized level, that is, in some priority ministries. Also on this level, Karlier & Jennes (2003) argue that priority should be given to the confrontation of costs and means, thus the expanding MTEFs of the health and of the education sector to be more than (detailed) cost estimations.

Karlier and Jennes (2003) also point out that an important downside of the simultaneous introduction of MTEF, PRS, HIPC and other public finance related programmes, is the huge burden this implies for those central in the budget formulation process. Therefore it would be preferable to integrate these programmes as much as possible. Especially the introduction of HIPC diverts from an integrated approach. As experiences in other African countries shows, fitting HIPC into the ordinary budgeting procedure is possible (Karlier & Jennes, 2003).

12. Rwanda

According to Short (2003) the Public Expenditure review of 1997/98 undertaken jointly by the Government of Rwanda and the World Bank recognized the potential advantages of introducing a MTEF for expenditure management. The existing budget was of an incremental nature, focusing on inputs, relying on centralized controls and had a sharp separation in the planning of the recurrent and development budgets. In particular, the PER recognized that converting strategic objectives into concrete expenditure targets would inevitably require large shifts in the allocation of sectoral expenditures, which was urgently required given the aftermath of the 1994 genocide. Such shifts would be impossible to achieve over the course of one annual budget and would be difficult to manage in the absence of a MTEF (Short, 2003).

The PER recommended a gradual shift towards an MTEF system, starting initially with steps to:

- Decentralize budget authority from the MoF to the sector Ministers (and thence to section heads within the sector Ministries);
- Improve the effectiveness of budget monitoring and expenditure control, particularly with regard to the salaries budget; and
- Improve the information abse for the evaluation and reform of sector policies and programmes through selective reviews of public expenditure in each sector.

However, the MTEF process has been operational only since 2001. Much has been achieved; in particular, the development and dissemination of the strategic planning model to all levels of government: central, provincial and district. Budgets are prepared using this format. The budget timetable has been developed, and the budget documentation covering the Budget Call Circular, Budget Framework paper, Background to the Budget and Overview of the Budget have all been developed and are operating (Short, 2003).

Budget reform, through the introduction and development of the MTEF, has progressed by attending to the major components within the same framework – programme format, output orientation, sector strategies and decentralization. An element that is still missing is the unification of the budget into current and capital components. This budget unification is in the existing work programme. While the recurrent and development budgets remain separate, and more importantly the development budget remains under-specified, the ability to allocate resources optimally has to be questioned. Linking budgets and expenditure to performance in both the MTEF and PRSP becomes a serious concern (Short, 2003).

Nevertheless all of these existing achievements have been developed under conditions of uncertainty with respect to the resource envelope. While domestic resource mobilization has been adequately assessed and adjusted, as necessary, external funding has been problematic and uncertain in delivery. This has led to budget revisions to accommodate the disbursements or non-disbursement of donor flows in different years. The failure of the 2002 Budget to satisfy the IMF meant that it could not be implemented as set out, as donors did not disburse budget support as planned.

The PRSP and the MTEF have been developed at the same time and in the MoF. The PRSP and the MTEF are inextricably linked, but this has been achieved in reality through the close working relationship developed between the staff and consultants in the MTEF unit in the Budget department and the national planning unit (Short, 2003).

An important feature of any MTEF is that it is designed to allocate resources to meet priorities. It does not guarantee additional resources as a feature. A major problem in its application in Rwanda is that ministries, having received training in the strategic planning model, have not seen the supply of the financial resources to deliver the outputs. This can generate skepticism of the MTEF as a tool and generate a culture where implementation is resisted, as it can create more work and responsibilities for individuals. Ensuring the delivery of financial resources is critical to the success and development of the MTEF.

Rwanda is currently operating a cash budget, which does not sit comfortably with a MTEF. The cash budgeting process effectively undermines the MTEF as it generates the element of uncertainty that the MTEF is meant to eliminate. In fact, the combination of the cash budgeting system and the lack of cash due to the disagreement with the IMF led to a lack of information flow. This seriously undermined the credibility of the MTEF process. Communication and transparency are vital – even if it is only to explain why the Ministries are not receiving funds (Short, 2003).

The goal for MTEF (and the budget for the next two years) should be to ensure that the flow of funds is timely to allow budgets to be executed. This will require the development of quarterly cash flow requirements for each ministry. Training in the strategic planning model should also be continued to reinforce what has already been carried out, but also to take account of staff turnover (Short, 2003).

13. Uganda

According to Bird (2003) and many others, the MTEF in Uganda has been a considerable success. It has been credited with contributing to sustained macroeconomic stability; and with facilitating a significant shift in expenditure composition towards stated policy priorities. It has provided a mechanism for integrating the PEAP within the Budget process; for linking expenditure planning at the central and local government levels, and with the introduction of LGBFPs for introducing medium term budgeting in LGs. Since 1997, the MTEF has been used as a tool for broadening stakeholder involvement in expenditure planning and review and for engaging donor agencies in the budget process consistent with their increasing involvement in budget-support operations.

There are a number of factors about the Uganda experience with introducing the MTEF that have facilitated this favourable outcome. These include:

- **Ownership and Leadership**. The MTEF was initiated from MoFPED rather than being prompted by donors. It has benefited from strong leadership by the MoFPED and from the outset has been an integral element of the budget management cycle. The merging of the finance and planning ministries significantly facilitated its introduction.
- **Sequencing and Progression**. The MTEF process has evolved progressively over a decade, in contrast to those countries where a fully-fledged MTEF process has been introduced from the outset. The initial priority was to realize greater fiscal discipline and the macro-fiscal framework continues to be the cornerstone of the MTEF. Only then did the focus shift towards sectoral resource allocations. Broadening stakeholder participation in the MTEF process has only occurred relatively recently. This progression has facilitated sustainability by allowing existing progress to be consolidated before moving to the next stage of MTEF development.
- **Emphasis on a Strategic Approach**. The focus of the MTEF in Uganda has very much been at the strategic level – the macroeconomic framework and on linking sector policies to broad resource allocations. This has reduced the capacity demands of the MTEF exercise, and has avoided the risk of it becoming ensnared in a more detailed forward budgeting exercise.
- **Environment of Sustained Economic Development**. Over the last ten years Uganda has experienced a period of sustained and relatively rapid economic growth. This has provided a conducive environment in which to introduce an MTEF – predictability for budget planners, increasing real levels of public sector resources, improvements in the performance of public services, and increased institutional capacities linked to more realistic remuneration levels (Bird, 2003).

Nevertheless, as Bird (2003) points out, there remain major limitations in the MTEF exercise that will need to be addressed:

- **Formal status of the MTEF**. Despite Uganda having been one of the first countries to introduce an MTEF, its role and place within the budget cycle has never been clearly spelt out, for example, in a budget procedures manual. Since the BFP has been presented in the form of a Cabinet memorandum, its circulation ahs been quite limited. This has significantly undermined the transparency of the MTEF process.
- **Involvement of Parliament**. The requirement under the 2001 Budget Act for the BFP be presented to Parliament prior to the submission of the annual budget is a

positive development. However, it also reflects to some extent a response to the failure to open up the strategic budget planning process to Parliamentary scrutiny. One consequence of the new legislation having been introduced as a private member's bill is that its provisions stand separate from the wider public finance legislation. The 2001 Budget Act could also be taken as giving the legislatures a role in revising the executive's budget proposal.

- **Integration with the Budget Cycle.** Although the MTEF and Budget processes are well integrated, a number of problems have been identified with the present timetable:

    - There is insufficient separation between the strategic MTEF/BFP stage and the preparation of the detailed budget estimates. This results in decisions on broad budget allocations being taken concurrently with the detailed preparation of the budget, necessitating repeated revisions of the MTEF resource ceilings and and budget estimates.
    - Because the MTEF table is routinely updated throughout the year, there is risk of updating of the framework becoming an incremental budgeting process rather than one in which changes in allocations reflect deliberate choices of budget strategy.
    - Because the BFP is presented to Cabinet in March immediately prior to finalization of the Budget, it has to provide a firmed up budget framework with little opportunity of analyzing and presenting strategic budget choices for Cabinet decision.

Comprehensiveness. At an aggregate level the MTEF includes all public expenditures, except for those financed form LG revenues. However, as a tool for determining the allocation of resources, the MTEF process is much less comprehensive and there remain major limitations. This is somewhat surprising given that the MTEF process has been operating for more than ten years.

Budget management systems. While the MTEF process has encompassed substantial improvements in macro-fiscal management and in resource allocation processes, progress with strengthening the operational aspects of budget management has been more limited. Thus:

- Progress has yet to be made in adopting a common budget structure encompassing both development and recurrent expenditures within a single sub-functional (programme) and economic classification. This is particularly important when the development budget includes substantial recurrent expenditure.
- Without such a structure, it has been impossible to develop an effective set of budget performance indicators or to focus budget planning around results.
- The introduction of a financial management information system encompassing such improvements and allowing for easier monitoring of budget performance has been substantially delayed (Bird, 2003).

Bird's (2003) study makes the following recommendations:

Reducing the present fragmentation in expenditure planning by bringing wagebill allocations and externally financed projects within the overall sector resource ceilings and allowing the SWGs to consider trade-offs between the different categories of public expenditure. Linked to this role of the Ministry of Public Service should change to one of supporting line ministries with establishment an wagebill planning (rather than assuming this responsibility directly).

Introduce a common sub-functional (programme) and economic expenditure classification that would allow for the integration of the recurrent and development expenditures within a single budget. This is essential to extending the BFP analysis to the level of functional that cut across ministries and levels of government (at present this is only partially achieved with the LG conditional grants).

Increased emphasis on programme outputs Within the MTEF and budget process and in the context of the introduction of the FMIS there should be a greater emphasis on linking expenditure planning and monitoring to programme outputs.

Review the role of the PIP. The present PIP process is not providing accurate and timely estimates of project spending. The move to an integrated budget will also change the role of the PIP within the expenditure planning process. Thus the PIP should no longer focus on strategic public expenditure decisions (which should be taken in the context of the MTEF/BFP) but instead be oriented towards the technical appraisal of projects and the phasing and monitoring of implementation and expenditures against total project cost.

Elaboration of a long-term expenditure planning perspective With the MTEF process in Uganda having reached a relatively mature stage, it is becoming increasingly evident that medium-term expenditure plans need to be placed within a longer term policy and planning perspective. MoFPED should therefore proceed with its plans to elaborate a long term expenditure framework.

There is a high degree of consistency between the PRS and MTEF in Uganda with the Poverty Action Fund being incorporated as a virtual fund within the MTEF. However, the study findings suggest that a number of issues remain to be addressed:

- First, there is evidence that the PRSP has yet to be adequately costed and that full costing of the proposals would highlight significant resource shortalls.
- Second, the analysis of public expenditure implications of the PRSP is to some extent limited by the present absence of a sub-functional (programme) classification in the Budget applied to both recurrent and investment budgets.
- Third, the practice of prioritizing the release of non-wage recurrent expenditure allocations to the PRSP priority sectors and programmes results in increased uncertainty in the funding of programmes outside of the PRSP with resultant risks to the efficiency and effectiveness of these programmes. This suggest a requirement for a more balanced approach to prioritizing budget releases, perhaps guaranteeing the shares of resources to be released to the priority sectors.

Bird (2003) concluded that while the PAF has been a useful tool in focusing attention on the financing requirements of PRSP, there is a risk that it has diverted attention to considering expenditure prioritization and management issues in other sectors (which impact on the overall effectiveness of public expenditure). As the PRSP process matures, its funding requirements should be considered in the context of the overall budgetary resource envelope and the separate PAF dropped.

PART 3: CONCLUSIONS AND RECOMMENDATIONS

As Foster et al (2002) show, it is important to recognize that much of the PEM reform effort in sub-Saharan Africa has been focused on efficient and effective rather than explicitly pro-poor use of public resources. Nevertheless, such reforms are critically important for long-term poverty reduction. Getting the PEM basics is an essential precondition for government to be able to do anything significant for poverty reduction.

For much of the 1990s, public expenditure in sub-Saharan Africa in general could be characterized as regressive and inefficient, with government providing services of poor quality to a small proportion of the population, with the non-poor benefiting disproportionately. Budget systems at the beginning of the 1990s were essentially incremental in nature, based on across the board increases in budget allocations, plus investments in new activities largely driven by donor project aid. Governments were involved in more activities than they could adequately operate, maintain and manage. With the poor effectively excluded from many of the benefits of public expenditure, a radical re-orientation of spending priorities was clearly needed in order to bring about a pattern of public expenditure that benefited the poor. This needed to be complemented by a reform process to raise the effectiveness of public expenditure (Foster et al, 2002).

Many countries introduced MTEFs. It is quite evident that if it can be made to work effectively, the MTEF is the key instrument for planning and executing the shift in expenditure priorities that is required in order to focus public expenditure on the objective of reducing poverty. Fitting in with this fundamental transformation in PEM have been a number of co-evolving innovations.

These have included:

- Sector wide approaches (SWAPs), intended to achieve improved outcomes in sectors such as health or education, by jointly planning the allocation of government and external funding in support of a single programme for the sector;
- The attempt to link debt relief to effective, nationally-owned poverty reduction policy by making the production of a government PRSP informed by participatory research (Foster et al, 2002).

As Foster et al (2002) point out, the premise of an MTEF is that the annual budget cycle is too short a period for shifting spending patterns. The budget for the coming year is often fully committed before the year starts, and there is little room for shifting priorities. The MTEF, on the other hand, sets out estimates of the resources available for public expenditure over the next several years (normally three years), together with indicative plans for allocating these resources between competing priorities. The medium-term perspective enables departments to plan; those departments with high priority programmes can plan their expansion, recruiting the staff and setting in place the management arrangements to achieve the objectives. Those departments expected to find savings can plan an orderly withdrawal from activities now judged to represent a low priority for government funds.

Box 1 sets out key factors for a successful MTEF, based on the case studies. This can be seen as an idealized model of optimum conditions for a successful MTEF. Not many countries assessed in this study meet all or most of these conditions. This does not mean, however, that MTEFs that meet some of these conditions cannot be at least partially functional.

Box 1: When is an MTEF effective?

1. Clarity on the objectives and priorities of government policy, and on criteria for public expenditure
2. Realistic forecasting of the resources available for allocation, communicated in a timely fashion to those required to manage them
3. Planning and analysis directly linked to the allocation of resources
4. Clear and appropriate guidance to departments on how their budget proposals should be prepared, requiring them to show how their expenditure proposals contribute to strategic government objectives
5. Discretion for departments to make choices
6. Capacity and incentives within departments to prepare realistic and appropriate expenditure proposals, informed by evidence and analysis
7. An effective 'challenge' function, linking budget allocations to assessment of departmental expenditure proposals for their compliance with government policies and priorities
8. A reasonable correspondence between the priorities of the budget and the MTEF and the resources actually released to departments
9. A capacity to monitor the extent to which the actual pattern of expenditures within departments reflects the priorities set out in their budget proposals.

Source: Foster et al, 2002.

The demand for public expenditure greatly exceeds the funds available, and the key task facing governments is to decide where they should focus the limited resources available to them. The years of structural adjustment saw several countries withdrawing, to a greater or lesser extent, from activities that could be undertaken by the private sector, and trying to focus limited government resources on carrying out a core set of activities as effectively as possible (Foster et al, 2002).

Countries vary in the extent to which the re-thinking of the role of government received explicit expression in criteria for defining when public expenditure would be appropriate. Uganda, as part of the PEAP has identified some explicit principles. Tanzania has adopted a broadly similar approach. Since 1996, spending on sectors identified in national policy documents as poverty priorities (health, water, education, agriculture and rural infrastructure) has been protected and increased in the short to medium term. While this is in part due to a rise in grant aid to these sectors, it also reflects government's commitment of core resources to these priorities. Ghana has also sought to identify the share of the budget allocated to poverty expenditures, though the spending categories are not rigorously defined, and the poverty categories have no special status within the budget management process. In Malawi, the creation of a virtual poverty fund comprising thirteen poverty priority expenditures was recommended but not adopted in the 2001/02 budget (Foster et al, 2002).

Public expenditure needs to be prioritized to fit within the available resources. In that context, Uganda has benefited from a combined Ministry of Finance, Planning and Economic Development. This powerful ministry has ensured that the priorities that emerged from the PEAP were reflected in the proposed allocations of the MTEF, with a clear commitment to achieve a significant shift in spending priorities towards PAF programmes.

In Ghana, planning and finance are split, and the weak NDPC has been unable to secure the necessary engagement of Finance and line ministries. Planning documents have lacked realism, and have had little influence on expenditure priorities. The five year plan was not costed, and provided no real guidance on expenditure priorities. This gap was not filled by the MoF, which lacked the capacity to provide strategic analysis of spending priorities, and did not see this as its function. Attention turned instead to amore technocratic bottom-up approach to the MTEF, lacking a strategic resource allocation focus (Foster et al, 2002).

A similar situation prevailed in Mozambique at the start of the 1990s; consolidated resource planning and the development of functional linkages between budgeting and planning were hampered by the administrative separation of the NPC (responsible for investment programming) and the MoF (responsible for recurrent budgeting and overall financial management). The consolidation of planning and finance roles through the creation of the Ministry of Planning and Finance in 1994 was thus one of the key early reforms. However, achieving a more institutional structure in this manner is more of a process than an event: in Mozambique the functional integration of the pre-1994 institutions has been slow, with the internal structure and personnel arrangements of the new Ministry only approved in 1997. Responsibility for planning and financial management instruments continues to be divided between separate departments within MPF.

A strong MoF is needed to provide guidance to line ministries on how to relate their plans to budgets. In Ghana and Malawi, the MTEF has developed as a methodology for departments to prepare medium term expenditure proposals, based on a bottom-up approach to activity-based costing. Finance has not provided clear guidance on how priorities should shift either between sectors, or within sectors.

As Foster et al (2002) show, if the revenue forecasts are not realistic, the whole MTEF process is undermined. In Benin, Burkino, Faso, Ghana and Rwanda, an optimistic view of the funds available in the first year of the MTEF often results in budgets that cannot be implemented, with the cuts falling on new programmes and on the non-salary budget, reducing the effectiveness of expenditure. At the same time, a pessimistic bias in the forecasts for the outer years of the MTEF means that departments cannot plan ahead for how additional resources would be used. Neither the annual budget, nor the MTEF, has credibility with departments, and the budget process was not taken seriously. Similar problems were experienced in Malawi and Tanzania.

The MTEF needs to be based on a realistic forecast of the discretionary resources available, i.e. that portion of revenues which is left for allocation after taking account of statutory obligations such as debt service. A number of biases have been found:

- For domestic tax revenues, the tax authority will often be set targets to increase revenues by efficiency improvements. Uganda and Ghana have both faced revenue shortfalls when these targets were not met. Uganda has now decided to separate the targets set for the revenue authority, from the revenues assumed for budget purposes. The revenue assumptions in the budget will not include efficiency improvements until there is clear evidence, from actual collections, that they are being achieved.

- For foreign aid, donors usually overestimate likely spending in the current year, but their pipeline forecasts usually include only firm commitments, and will tend to lead to under-estimates of likely spending. As a consequence, Ghana has tended to adopt over-optimistic assumptions of donor flows in the current year, while assuming a drastic reduction in the outer years of the MTEF. Uganda adjusts current year donor figures by donor specific ratios, reflecting past experience in turning commitments into disbursements. For the outer years, a number of approaches are used. Donors are asked to provide longer –term commitments of budget support, but where they are unable to do so, Government seeks informal and non-attributable indications on which to base future assumptions. Frequent communication is needed to ensure that the best possible estimates of future trends are reflected in the figures.
- The non-discretionary part of the budget is especially sensitive to macro-economic management. The debt service burden can increase sharply if the exchange rate declines or if domestic borrowing and inflation put upward pressure on domestic interest rates. Successive Ghana elections have been accompanied by loss of fiscal control and a ratcheting up of interest rates and the debt service burden, squeezing the resources available for allocation (Foster et al, 2002).

The bottom-up, activity-based budget approach used in Malawi and Ghana has resulted in very detailed documents, with large numbers of objectives and activities being separately costed. In decentralized sectors especially, the budget bids have proved difficult to aggregate, difficult and time consuming to revise, and difficult to summarize in a way that gives any clear picture of how resources are allocated in terms of strategic priorities. The enormous effort required to produce these detailed documents is disproportionate to the potential benefits of the approach. Our view is that the Uganda approach of focusing effort on reviewing sector proposals in terms of strategic priorities makes far more sense as a starting point for moving towards medium term budget planning.

The capacity to produce a realistic strategy and expenditure program has been enhanced in cases where government has co-opted donor representatives and technical resources to help with the process. The sector working groups in Uganda and Tanzania draw on donor resources in preparing and defending budget bids. Donor expenditures in the sector are also increasingly being coordinated with government as part of a single strategy, and an increasing share is being provided as budget support. This joint planning process, involving government and donor partners, works well where there is reasonable consensus on the priorities in the sector. Where there is a sector-wide approach, the preparation and review process for the sector programs can be integrated with the budget process, as both Uganda and Tanzania attempt to do (Foster et al, 2002).

Achieving a change in priorities requires a clear identification of the expenditure programmes to which government wishes to give increased emphasis, and a process to make this effective. The model that most MTEFs implicitly assume is one in which there is an iterative relationship. MoF advises departments of government strategic priorities when inviting budget proposals, and gives them indicative ceilings, which may indicate programmes expected to increase and which to fall. Departments are invited to set out their budget proposals and bids, showing how they contribute to government priority objectives. MoF reviews the proposals with the departments, and makes recommendations to the Cabinet for approval. There may be more than one iteration, but the final position is preparation by the MoF of the budget estimates for approval by the Cabinet and Parliament, possibly including the indicative ceilings for the outer years of the MTEF.

The process is only effective where the MoF has the capacity to question budget bids, and the authority to propose modifications. In Uganda, both the capacity and the authority has been given to MPFED, and there is an annual process of reviewing budget proposals that is remarkably open, involving donors as well as civil society. The Cabinet approves budget ceilings nased on MPFED advice, with MFPED submitting information on unfunded bids for the Cabinet's decision on priorities. A key point is that discussions in the Cabinet on expenditure proposals are taken as part of a disciplined budget process, respecting the need to keep within an overall resource envelope, and to make choices. The protection afforded by the PAF has also helped to preserve strategic priorities from cuts.

An effective challenge function is built on clear priorities and criteria agreed by Government for judging proposals, and on a technical budget process that requires departments to present justification for their bids in terms of how they contribute to government policy objectives. This needs to be at the strategic level; it is not the same as the more bottom-up approach to activity costing adopted in Ghana, which presents a lot of detail, but obscures the main messages on where the overall department spending programes are going, and why. It requires good technical support to sectors in preparing their budget proposals. In sectors where there is good cooperation with donors, perhaps around a sector-wide approach, co-opting skilled donor staff onto budget working groups, or calling on donors to finance technical studies in support, can be helpful. Equally important, the central planning and budget authorities need the capacity to be effective in seeking clarification of the rationale for budget bids. Uganda has made effective use of a specific poverty working group to focus on the poverty rationale, both questioning departments and helping them to tighten their focus, with the prospect of access to the protections of the PAF as one means to give them the incentive to comply (Foster et al, 2002).

The challenge function is built on political support for sound budget management and evidence based policy. Where this is present, as in Uganda, the challenge is effective. Where it is missing, as in Malawi, the role of the MoF is undermined (Foster et al, 2002).

The credibility of the MoF-led process of prioritization and of the central challenge function depends on government itself respecting the limits of available resources, and adhering to its own stated priorities. If Ministries feel that other departments are able to circumvent the rules, or that they themselves may receive additional funds by lobbying outside the formal budget process, then the whole process of prioritization can be undermined, as several case studies illustrate.

In situations where the budget is effectively re-made during the course of the year as a result of quarterly budget releases, the government risks losing control of spending priorities unless specific action is taken to ensure that the pattern of releases is in line with priorities. Ghana is introducing a system based on quarterly forecasting of revenues, and submissions to the Cabinet setting out the resources available, and seeking political decisions on priorities for allocating them. This is a second-best solution to cope with short-term fiscal crisis, but the key principle of the government identifying the resources available and allocating them between competing priorities can be extended to the annual budget and the MTEF once more stable macroeconomic conditions are restored (Foster et al, 2002).

The political process may undermine prioritization. If the Cabinet behaves competitively, and conflicts over competing budget bids cannot be amicably resolved, the risk is of undisciplined over-spending, or of all programmes being impeded by tight cash ceilings. There is little that can be done technically to resolve this, though the MoF may be able to ensure that the Cabinet is fully aware of the consequences of their decisions. There might be scope for more general awareness-raising for the Cabinet and Parliament based on exposure to practice in other countries (Foster et al, 2002).

Nevertheless, as Foster et al (2002) show, there are important technical underpinnings that are essential for an effective annual budget process and a realistic MTEF. Box 2 summarizes common technical problems that have undermined the budget process in the several countries.

Box 2: Technical Problems Undermining the Budget Process

Lack of timeliness The budget calendar is frequently allowed to slip, resulting in the budget being presented in Parliament after the start of the budget year, and causing budget releases to be delayed. This causes delays and interruptions in the business of government, reducing output and leading to under-spending on programmes such as road maintenance, where contracts have to be let. Interim arrangements may be in place to mitigate the effects, as in Ghana, to enable departments to draw the first two quarters at the same level as the previous year pending approval of the budget.

Unrealistic or changing revenue estimates Good in-house macroeconomic analytical capacity, allied to presentation skills for explaining the implications to Cabinet, can facilitate the adoption of realistic forecasting assumptions on revenue and inflation. This must be combined with regular dialogue with the IMF during preparation, to avoid the disruptions caused when the IMF calls for major revisions late in the budget process.

Poor cash forecasting In negotiating benchmarks and targets for monetary ceilings such as government net borrowing from the banking system, a realistic assessment of the timing of receipts and of payments is critical. The ceilings can and should be adjusted to reflect the anticipated seasonal pattern of receipts and payments, and automatic stabilizers are normally included to offset changes in the timing of offshore receipts. Where cash forecasting is weak, as in Tanzania in the 1990s, the budget has been managed by basing cash releases on revenues already collected, a practice that inevitably results in a stop-go pattern of budget releases that undermines implementation.

Inability to prevent expenditure commitments from exceeding authorized limits on cash outlays Budget managers should not enter into new expenditure commitments which, taken together with commitments entered into previous periods, will cause actual expenditures to exceed their annual budget allocations – or, if cash is released quarterly, the cash they have available for making payments during the quarter. This requires a system of expenditure forecasting and commitment control, since contracts with suppliers may call for payments extending across several quarters or even years. If payments falling due exceed authorized limits, arrears of payments accumulate. Poor cash management at the centre can also cause arrears. In 2000 Ghana's Treasury was, for lack of funds, unable to honor bills that departments had legitimately incurred from authorized budgets, causing delays in payment. Arrears bring adverse macroeconomic, public expenditure strategy and public procurement effects. First, arrears constitute a claim on resources available in future budgetary periods, and are a potential threat to future fiscal balance. Second, an accumulation of inherited payments commitments limit the scope for implementing planned shifts in expenditure priorities. Third, suppliers to government organizations and agencies, anticipating indeterminate delays in payment resulting from over-commitment or unpredictable and delayed budget releases, increase their prices. IMF technical assistance to Uganda achieved a very significant reduction in arrears by introducing a simple system to ensure that commitments can only be incurred to the level of the available funding.

Source: Foster et al, 2002

The preliminary conclusion that emerges is that MTEFs alone cannot deliver improved

PEM in countries in which other aspects of budget management remain weak. The preceding analysis suggests three reasons for the breach between the promise of MTEFs and their actual impact. First, and most importantly, MTEF reforms have not taken sufficient account of initial country conditions in basic aspects of budget management, notably budget comprehensiveness, execution, and auditing. The fact that comprehensive detailed diagnoses of budget management systems and processes did not precede all MTEFs led to inadequate design and sequencing of the reform programmes. Second, MTEF reforms, with the exception of a few cases, have typically not paid sufficient attention to the political and institutional aspects of the reform process. Third, operational MTEFs do not closely resemble their textbook cousins, which raises questions about the feasibility of launching full-fledged MTEFs in many developing countries (Le Houerou & Taclerio, 2002).

Le Houerou and Taclerio (2002) suggest that while one should recognize that MTEFs are potentially valuable PEM tools, they should be re-crafted so as to make them more effective. They make a number of recommendations for improving MTEF design and implementation.

14. The Importance of Initial PEM Conditions and Reform Sequencing

The MTEF, in order to work, must rest upon a good macro-fiscal model and a solid budgetary management foundation. Good, realistic macro-fiscal projections are the key to the success of an MTEF. Efforts to improve macro-fiscal projections are necessary but not sufficient. Moreover, the effort should not result in a “technification” of the reform program due to an unbalanced focus on the technical aspects of macro-fiscal modeling.

The MTEF should also rest upon a solid budget foundation, which would encompass many elements, though chief among them is budget execution that complies with the adopted budget. Consistency between the budget and its execution is a precondition for transparency, predictability, and accountability. In a country where budget execution (i.e. actual expenditure) bears little resemblance to the voted budget (i.e. the intention to spend by sectors, functions, and programs), an MTEF is not likely to be taken seriously by sector ministers, nor by parliamentarians, nor by civil society.

Laying the foundation thus means strengthening budget execution procedures. It also means strengthening the role of both internal and external audit agencies. At a basic level it means the publication of quarterly budget execution reports using the same classification as the one presented in the budget and the publication of external audit reports, both of which should be underpinned by sanctions against misappropriations of resources. Indeed, these measures could be taken as indicators of a government’s real political interest in improving budget execution.

Moreover, other key elements of basic budgetary management also impinge greatly on the potential success of the MTEF. Budget comprehensiveness, that is, the extent to which the budget takes account of all public expenditures, including donor funds, off-budget accounts, and user fees, matters a great deal for the relevance of the MTEF. If large proportions of public resources and expenditures are left out of the budget, the MTEF can only be of limited value. For an MTEF to have an impact, the problem of budget comprehensiveness must be addressed.

Other reforms that should be in place before or during MTEF adoption include the integration of the capital and recurrent budgets; detailed, functional budget classification systems; and good treasury management systems.

Recommendation: Lay the foundations – The MTEF should be seen as a complement to, not a substitute for, basic budgetary management reform (Le Houerou & Taclerio, 2002).

Before launching an MTEF reform a comprehensive and detailed diagnosis of the most important PEM problems should be prepared. Based on this diagnosis, reforms of budget classification, formulation, comprehensiveness, execution, controls and audit, and transparency should be undertaken. That is, the introduction of the MTEF reform should then be tailored to the country based on these initial PEM conditions and the prescriptions for their reform. For example, in a country with weak PEM systems, a fully-fledged MTEF should not be introduced. Rather, it would be preferable for the government to engage in a comprehensive and in-depth reform of basic PEM systems – focusing on budget comprehensiveness, execution and reporting – while at the same time introducing some of the basic components of an MTEF, starting with realistic three year macroeconomic and fiscal projections.

15. Sequencing and Phasing the MTEF Reform

The cases show that in practice all MTEFs have been implemented in both a phased (in terms of the technical dimension) and piloted (in terms of scope) manner, either intentionally or unintentionally. Capacity constraints as well as initial conditions and operational experience call for revisiting the issue of how to phase in and pilot MTEFs.

Formally, both South Africa and Kenya introduced the MTEF on a government-wide basis, while Tanzania and Rwanda used a pilot approach by beginning with a subset of priority sectors (Mozambique used a hybrid approach: sectors with pre-existing integrated programs were responsible for producing SEFs while the MoF shared responsibility for SEF development with the other sectors). Kenya formally implemented the MTEF across all sectors and levels, but some ministries did not present any costings at all while others presented incomplete costings. Rwanda explicitly phased in the level of rigor of the MTEF.

In fact, however, in many cases examined in this study the government-wide approach has in practice turned into a pilot approach because some sectors simply do not, or are unable to, participate in a meaningful way (some sectors essentially opt out of the MTEF by producing very low quality SEFs).

There are two important issues here: piloting (horizontal, i.e. across sectors) and phasing (vertical, i.e. across MTEF levels – aggregate, sectoral, and service delivery). The cases show that de facto all MTEFs have been both piloted and phased, operating in a limited number of sectors (horizontally) and levels (vertically). This means that implementation strategies have to be explicit about what they expect and when. In countries with weak capacity, a full-fledged MTEF, which is a package of bundled reforms, cannot be introduced all at once.

The MTEF approach needs to be explicit about the different level of capacity that exists at the sectoral level while not confining the MTEF to only a few sectors, which undermines the fundamental notion of the MTEF. At the same time the MTEF strategy needs to facilitate sectoral participation by providing necessary training and support.

Recommendation: Adapt the reform to existing capacity (Le Houerou & Taclerio, 2002).

In terms of sequencing, the MTEF should be piloted in across sectors according to their levels of capacity but phased in through the MFF and the SEFs at both the aggregate and sectoral levels in order to institutionalize the process. The MTEF should be phased in by concurrently focusing on the macro/fiscal and sectoral levels. That is, the MFF should be developed in tandem with the SEFs, which ideally should be phased in strating with sectoral strategies and objectives (based on sectoral and economic research) and subsequently moving to costed programs. The exact specifications will vary by country, depending on the country's administrative capacity and initial PEM conditions.

16. Key MTEF Management and Design Issues

There are also a number of managerial aspects of MTEF reform that need to be revisited. These include: the integration of the MTEF with the existing budget process (including approval and dissemination), the design of MTEF management structures, and MTEF standardization.

Many countries have experienced problems integrating the MTEF with the existing budget process. In Tanzania, the MTEF, which is views as an "anchor" to the budget process, at one point operated in parallel with the budget, which led to the production of two sets of budget numbers (the budget guidelines and the MTEF), which caused confusion and undermined both processes. The experience was viewed as unsatisfactory and Tanzania has since moved toward integration of the two.

In the case of South Africa, the MTEF was merged with the old budget process as a new MTEF-based yearly budget process was established. The MTEF is presented as part of the Medium Term Budget Policy Statement (MTBPS), which is a preliminary statement of the budget plus projections and is published three months before the budget. This reduced confusion and helped focus attention and resources on the MTEF.

As the building blocks of the MTEF are developed, they should be built into the budget process from the start; there should not be parallel budget and MTEF processes. The issue of careful and proper sequencing would thus take on even more importance and would undoubtedly be one of the most challenging aspects of the reform. The issue of timing is very important here, especially in the first year of the MTEF. Slippages and unrealistic timetables could marginalize the MTEF in its first years of operation.

A related issue is the process by which the MTEF is issued, approved, and disseminated. If the MTEF is part of the budget presentation and adoption, then the issue is moot. If not, the way in which the MTEF is issued and approved, matters. In SA the MTEF, as part of the MTBPS, is issued y the MoF as a public document, which gives it a high profile. In Kenya, the MoF issues the MTEF, which is then approved by cabinet and sent to parliament. Requiring approval by cabinet and parliament should increase the importance of the MTEF and provide incentives to take it more seriously. In Mozambique the Ministry of Finance issues the MTEF, but it is not given high priority; rather, it is treated as an internal technical report and is not publicly available.

The MTEF needs to make the transition from an internal, technical document to a public, politically-backed plan. In order to accomplish this, the MTEF should be formulated with the active involvement of the cabinet all along the way, subject to high-level political approval, and issued with the backing of the cabinet, including the MoF. One effective way to do this is to issue the MTEF as a chapter in the budget and present it as an integral part of the budget speech. In addition, inviting civil society representatives to comment on the MTEF should be made a priority.

Recommendation: Integrate the MTEF with the existing annual budget process (Le Houerou & Taclerio, 2002).

The key elements of the MTEF should be integrated with the existing budget process from the start, with the approved budget effectively constituting the first year of the MTEF. The MTEF should not operate as a parallel system. The MTEF outer year projections should also be issued by the MoF to the cabinet as part of the budget document.

The design of MTEF management structures, which has not received sufficient attention, varies across the cases, though most countries use a combination of existing and ad hoc management structures. The cases indicate that the budget office alone cannot handle the formulation of the MTEF. Rather, it seems that an overlapping set of organizational actors is better positioned to promote the MTEF's adoption. In South Africa, the existing and specialized structures with clearly defined responsibilities overlap and reinforce one another, increasing the accountability of individual actors. In Mozambique macroeconomic and expenditure working groups, which did not include sectoral representation, initially managed the process, though were later replaced by the technical advisory office and the budget office; shifting responsibility from ad hoc to permanent units does not seem to have helped with implementation.

In Tanzania, the MTEF is managed through the PER Working Group (WG), which is under the leadership of the MoF's Deputy PS. The PER WG has MTEF sub-groups: the macro group and the sector groups. As the PER WG is participatory, so are the MTEF groups, which include representatives of the donors and academia, as well as the government.

Management structures can make a difference in implementation. The South African and Tanzanian cases provide innovative options for MTEF management. In SA existing ministries, both sectoral and central, are chiefly responsible for the MTEF, but overarching MTEF-specific committees pull the process together, reinforce responsibilities, and provide for checks on the ministries. The management design seems able to move the process forward from the technical to the political. The Tanzanian case is interesting because the MTEF process is managed by the PER WG, which is run by the MoF. In this case the emphasis is on broad participation throughout the development of the MTEF and reliance is almost exclusively on working groups. It seems that the participatory nature of the working group structure makes key managers more accountable by exposing them to the scrutiny of external actors within their working group and of other working groups. The fact that the MTEF is presented in an open forum, the minutes of which are publicly available, reinforces managers' incentives. In both the Tanzanian and South African cases there are institutional mechanisms to increase pressure on key managers to deliver. In Kenya the arrangement may be less successful because there are no MTEF-specific units to hold the working groups responsible. Sectoral participation in the working groups is also important, as the success in SA, and the failure in Mozambique show. Sectors need to be given meaningful roles in the process, as equals with their MoF counterparts.

In some countries the existence of PRSPs means that the MTEF will have a slightly different role to play. The management structure of the MTEF could piggy-back on existing PRSP structures (for example, working groups) and work programs. Given a good PRSP, MTEFs can incorporate strategic objectives and direction from the PRSP and focus the SEFs on program costings. In countries without PRSPs, however, MTEFs will have more work to do on sector objectives and strategies.

Recommendation: Actively manage the MTEF reform as an integrative process (Le Houerou & Taclerio, 2002).

Though the MoF should have ultimate responsibility, MTEF implementation needs to be managed by a set of overlapping, mutually reinforcing organizational actors, some of which should be specifically established to handle the mTEF. Though each country's budget management process is distinct, and so each MTEF management structure will have to be designed accordingly, the African cases suggest that these reforms should eb managed by a combination of existing departments and new MTEF-specific units in order to provide the support necessary for implementation. In countries with PRSPs, the MTEF management structure should be integrated with existing PRSP units and committees.

Standardization of the MTEF components, chiefly SEFs, also matter. The process of MTEF needs to be standardized not only in terms of organizational structure but also in terms of sectoral outputs. In South Africa, the MTEF review teams, which operate at the sectoral level, include ministerial representatives, provincial representatives, consultants, and treasury officials. The benefit is that ministries are not left to their own devices.

In Mozambique the lack of a standard complicated the process, as some ministries presented costs at very general program levels, while other presented them according to the ministry's organizational structure. In Tanzania some ministries did not initially prioritize expenditures within their sector plans, and some sectors included missions and objectives while others did not. During the second year of the MTEF, however, guidelines were issued and sectoral plans became more standardized.

Recommendation: SEFs should be developed according to centrally agreed upon guidelines, which should be published, and a realistic timetable, based on capacity constraints (Le Houerou & Taclerio, 2002).

17. The Relevance of the Political and Institutional Dimensions

Most MTEF reform efforts in Africa have focused on the technical to the detriment of the political and the institutional. The political and institutional dimensions seem to be persistent blind spot in most MTEF reform programs (Le Houerou & Taclerio, 2002).

Political motivations for launching MTEFs clearly matter. In South Africa, the MTEF was motivated by the politics of democratic transition; the need to deliver required greater control over the budget process. High constituent expectations had motivated politicians to care about resource allocation, efficiency, and effectiveness. The MTEF thus had political support from the beginning. In Uganda, it is widely recognized that presidential support plays an important, though sometimes contradictory, roel in explaining the relative success of their MTEF. In Mozambique, however, the motivation was more technical and included the need to estimate the cost of civil service reform and take into account existing integrated sectoral programs, which put some donor pressure on the government to have a medium term resource allocation plan. Political support for MTEFs undoubtedly varied across these cases and explains why the MTEF was more successful in some countries than in others. Some reforms were "owned" by countries; others were not. Failure to appreciate the political and institutional dimensions of MTEF reform has been one of the major shortcomings of the approach in many countries.

The MTEF, as a major PEM reform, will generate winners and losers, and therefore support and resistance. Future work on the political dimension of MTEF reforms, including the underlying political and bureaucratic incentives to support the reform and the impact of the reform on decision-making dynamics, is needed. Perhaps the most significant political problem is that a credible MTEF would have the disadvantage of tying the politicians' hands, thereby reducing their discretionary powers. Once an MTEF is prepared, politicians may find that they have incentives to do otherwise than comply with the indicated resource allocations. If however, the MTEF had been arrived at through a broad consultative process, and if the results were regarded as legitimate and desirable, legislative and public pressure might dissuade the executive from moving too far away from the MTEF. The Ghana case suggests, for example, that in spite of a promising start the MTEF is being undermined by politically motivated in-year resource allocations, which stem from the fact that the government did not obtain a political mandate for its initial budget allocation decisions.

Political considerations also influence what might be thought of as "technical" aspects of reform. Take the case of revenue estimation. Incentives for politicians to overestimate future revenues are strong because in the context of budget deficits, overestimation enables politicians to postpone hard decisions to reduce expenditures from the budget formulation to the execution stage. It is easier to accommodate the many requests of parliamentarians and vested interests on paper than in reality. In many countries, these incentives explain why countries adopt "cash budgeting" or "sequestering" mechanisms, in which monies are allocated on a monthly basis, depending on actual revenues. Although these mechanisms ensure a minimum of macroeconomic discipline, they are deleterious to the transparency, predictability, efficiency, and effectiveness of sectoral resource management, thereby undermining the importance of the budget and the MTEF.

The bureaucratic incentives of central and sectoral ministries to participate in MTEF implementation also paly a critical role; they therefore must be carefully addressed and managed on a case-by-case basis. Both the incentives of ministries of finance and sectoral ministries deserve careful scrutiny. The fact that political and bureaucratic players have real incentives to either support or resist the MTEF reform should be acknowledged up front.

In the case of sectoral ministries, their decision to implement the MTEF will depend to a large extent on their cost-benefit calculus. While the lack of capacity undoubtedly plays an important role, the lack of hard incentives to participate should not be overlooked. The cases demonstrate that sectoral ministries in many countries did not regard the MTEF's promised benefits as credible, though they did believe the costs would be real. Faced with certain costs and uncertain benefits, many sectoral ministries defected from the reform.

In order to promote MTEF reform, therefore, explicit attention should be paid to finessing sectoral ministries' decision rule to the extent possible. This suggest three general possibilities (given the variable in the decision rule). The probability of the reform actually coming to fruition could be increased. Here the president and cabinet could play an important role in making a credible commitment to line agencies that the MTEF will be adopted and executed as planned. There is less room for increasing the benefits of reform, as the sectoral allocations are determined ex ante, though two possibilities should be considered. First, to the extent that predictability was increased, sectors would have higher expected benefits. Second, allocating some portion of donor funding through the PRSP process on the basis of the quality of SEFs could provide hard performance-oriented incentives for sectoral ministries.

In some cases, ministries of budget and/or finance were not interested in supporting the MTEF, also because their incentives were not right. In Mozambique, for example, the MoF, which micromanages the budget allocation process, did not demonstrate enthusiastic support for the MTEF reform, which would have reduced its ability to micromanage resource allocations. This may be due in part to inadequate sectoral participation, though sectoral participation may also languish due to excessive MoF control. In Kenya, the first MTEF attempt failed because of lack of support from the budget office. These cases show that it would be wrong to assume that all MTEF problems lie with the sectors; ministries of finance share some of the blame, and proactive strategies to give them positive incentives to participate merit explicit attention. Moreover, when a planning commission or ministry exists, it should play a well-defined role in the mTEF process, because it might bring with it the skills (e.g. policy analysis) and interests that would otherwise be lacking.

Recommendation: The political and institutional dimensions of MTEF reform must be explicitly addressed if the reform is to go forward (Le Houerou & Taclerio, 2002).

REFERENCES

Bird, Andrew. Design and Implementation features of Medium-term expenditure frameworks and their links to poverty reduction – Country Case study 7, ODI, May 2003

Bird, Andrew. Design and Implementation Features of MTEF's and their links to Poverty Reduction in Uganda, Country Case Study 8, ODI, May 2003

Booth, David Andrew Lawson & Tim Williamson, Samuel Wangwe, Meleki Msuya. Joint Evaluation of General Budget Support, Tanzania, 1995 -2004, Revised Final report, ODI, 2005.

Carlier, Krit and Geert Jennes: An Assessment of the Cameroon MTEF, Country Case Study 3, ODI Centre for Aid & Public Expenditure, May 2003

Carlier, Krit, with Geert Jennes. Assessment of the Benin's MTEF, Country Case Study 1, ODI Centre for Aid & Public Expenditure, July 2003.

Foster, Mick, Adrian Fozzard, Felix Naschold & Tim Conway. How, When and Why does Poverty Get Budget Priority? Poverty Reduction Strategy and Public Expenditure Reform in Five African Countries, ODI Working Paper 168, May 2002.

Foster, Mick and Douglas Zormelo. How, When and Why does Poverty get Budget Priority – Poverty Reduction Strategy and Public Expenditure in Ghana, Overseas Development Institute, Working Paper 164, April 2002.

Foster, Mick and Peter Mijumbi. How, When and Why does Poverty get Budget Priority – Poverty Reduction Strategy and Public Expenditure in Uganda, Overseas Development Institute, Working Paper 163, April 2002.

Fozzard, Adrian. How, When and Why does Poverty get Budget Priority – Poverty Reduction Strategy and Public Expenditure in Mozambique, Case Study 5, Overseas Development Institute, Working Paper 167, May 2002.

Fozzard, Adrian. The Basic Budgeting Problem – Approaches to Resource Allocation in the Public Sector and their implications for Pro-Poor Budgeting, Centre for Aid and Public Expenditure, ODI, July 2001

Fozzard, Adrian and Chauncy Simwaka. How, When and Why does Poverty get Budget Priority – Poverty Reduction Strategy and Public Expenditure in Malawi, Case Study 4, Overseas Development Institute, Working Paper 166, 2002.

Government of Ghana. The Budget Statement and Economic Policy for the 2006 Financial Year, MoFEP, GoG, 2005.

Government of Ghana. Implementation of the Ghana Poverty Reduction Strategy: 2004 Annual Progress Report, NDPC, GoG, 2005.

Government of Ghana. The Medium Term Expenditure Framework for 2005-2007, MoFEP, GoG, 2005.

Hall, Peter. Review of Public Expenditure Management in Tanzania, ACBF Commissioned Study, 2006.

Jennes, Geert with Albert de Groot: Assessment of Burkino Faso's MTEF, Country Case Study 2, ODI, May 2003

Le Houerou, Phillipe and Robert Taliercio: Medium Term Expenditure Frameworks: From Concept to Practice – Preliminary Lessons from Africa, World Bank, February 2002.

Lienert, Ian and Feridoun Sarraf: Systemic Weakness of Budget Management in Anglophone Africa, IMF Working Paper/01/211, December 2001.

Naschold, Felix and Adrian Fozzard: How, When and Why does Poverty get Budget Priority – Poverty Reduction Strategy and Public Expenditure in Tanzania, Overseas Development Institute, Working Paper 165, April 2002.

Oduro. N. Kojo (2003), Results Oriented Public Expenditure Management: Case Study Of Ghana, Overseas Development Institute, working Paper208, June 2003.

ODI (2005), The Politics of Ghana's Budgetary System, Tony Killick, CDD/ODI Policy Brief No. 2, November 2005

Pillay, Pundy. Review of Public Expenditure Management in South Africa, ACBF Commissioned Study, 2006.

Roberts John (2003), Managing Public Expenditure for Development Results and Poverty Reduction, Overseas Development Institute, Working Paper 203, February 2003.

Singh, Ashwajit. Public Expenditure Review: Ghana. ACBF Commissioned Study, 2006.

Short, John. Assessment of the MTEF in Ghana, Country Case Study 4, ODI Centre for Aid and Public Expenditure, May 2003.

Short, John. Assessment of the MTEF in Rwanda, Country Case Study 5, ODI Centre for Aid and Public Expenditure, May 2003.

Stevens Mike (2005), Effective States and Engaged Societies: Capacity Development for Growth, Service Delivery, Empowerment and Security in Africa", Draft paper: Capacity building for PFM, AFTPR, June 2005.

van Zyl, Albert. Operationalizing the MTEF as a tool for Poverty Reduction: South Africa, Country Case Study 5, ODI, May 2003

World Bank (2004), Public Expenditure Management Country Assessment and Action Plan: Ghana, World Bank.
Accessed from: **www1.worldbank.org/publicsector/pe/Ghana%20HIPC_AAP_final**.pdf

World Bank, PEFA Secretariat (2005), Public Financial Management: Performance Measurement Framework, World Bank

World Bank. Decentralisation Policies and Practices: Case Study Ghana, 2003. Accessed from: **info.worldbank.org/etools/docs/library/205756/sloga/docs/sloga/MODA-EN-**

www.ghanaweb.com

www.ghanatoday.com

Wyne, Andy. Public financial management reforms in developing countries: lessons of experience from Ghana, Tanzania and Uganda. African Capacity Building Foundation Working Paper No.7, December 2005.