

# GHANA

## Strategy Support Program



### Understanding The Real Budget Process: The Case of Ghana

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#### INTRODUCTION

Despite CAADP commitment by African governments to allocate at least 10 percent of their budgets to agriculture, this has not materialized in all countries. Why is this so? Why do public resource allocations for agriculture still lag behind the political rhetoric and commitments? To answer this, we examine the budget process to try and grapple with a couple of more specific questions of whether the decisionmaking process of allocating resources is sufficiently open and rule-based, or whether it involves a lot of gray areas that offer room for back-door dealings, and whether of any of this may offer an explanation of why agriculture can lose out in the process.

We focus on Ghana to draw lessons for the rest of Africa by taking advantage of recent expert interviews in the country complemented by secondary sources in the literature. Because our interest lies with agriculture, we pay close attention to the support provided to the implementation of the Medium Term Agricultural Sector Investment Plan (METASIP). The sources for our information included both informal expert interviews undertaken in September 2012 in Accra and documentation in the literature. The brief is organized as follows. We begin by discussing the formal budget process itself, followed by a narrative of what actually happens from the little we have been able to capture in trying to answer some of the questions we have posed. From this, we draw some general lessons for the rest of Africa in the conclusion.

#### WHAT IS KNOWN—THE FORMAL PROCESS

The formal procedures underlying the budget process in Ghana are similar to those of other African countries, relying on a range of overarching policy guidelines tied to a national development strategy. In more recent years, this is laid out in the form of a medium-term expenditure framework (MTEF). The MTEF is a multi-year framework that allows countries to tie their current annual budgets to rolling budgets to be implemented over the coming years, while maintaining the policy orientation of the budget within the sectors.

The budget process begins in the first quarter each year with the Ministry of Finance and Economic Planning (MoFEP) seeking public input through the placement of an advertisement in local

newspapers. At the discretion of MOFEP, the inputs received are discussed at consultative meetings between MoFEP and stakeholder representatives who submitted inputs. Next, the ministry forecasts revenues and expenditure ceilings before issuing guidelines to all sector ministries for preparing their budgets. The decision on how budget ceilings are determined usually involves drawing on previous years to ensure recurrent costs are covered and the consideration of key policy priorities requiring capital investments.

Once the sector ministries begin preparing their budgets based on the budget guidelines and ceilings from MoFEP, they start by reviewing their policy and expenditure priorities based on their own medium-term sector investment plans. They then prepare their 3-year budget expenditure requirements and submit to MoFEP by the second quarter. In the case of agriculture in Ghana, the plan is called METASIP, which involves several ministries. The preparation of the expenditure priorities within the Ministry of Agriculture (MoFA) and under the METASIP involves negotiations and consultations with other ministries/departments/agencies (MDAs) engaged with the sector (e.g. fisheries, forestry, research, feeder roads) and within each of the MoFA directorates.

Once all MDAs have submitted their budget proposals—typically above their recommended ceilings—MoFEP then organizes a meeting that involves all the ministries and the National Development Planning Commission (NDPC) in order to discuss and review overall policy objectives, estimated expenditure requirements, and consistency with the national development strategy, with the goal of achieving some measure of coordination in resolving the budgetary allocations.

By the third quarter or sometime in August, the individual MDAs then submit their revised and final reports to MoFEP after having been asked to reprioritize along their prescribed ceilings and their proposed plans. Within agriculture and in MoFA, the reprioritization process involves bringing together the various key directorates, the budget office, and the policy planning unit to

discuss the implications of budget reductions. This is when MoFEP has the opportunity to slash down the budget. What is not clear are the parameters used in the reprioritization process. The next step consists of individual budget hearings between MoFEP and each MDA to ensure sector budgets are in line with the guidance from MoFEP. Once the budget has been finalized, it is then presented to Cabinet and subsequently to Parliament for approval by MoFEP.

The actual approval process is not very clear—whether there are some back-door negotiations prior to the formal presentation before parliament or if it is simply a routine process and always approved as is. Nevertheless, for MoFA for example, select sector committees (such as for agriculture and the cocoa sector) will sometimes request the Ministry to defend its budget with evidence to support it.

The passage of the final budget is not the end of the budget process, as there is still the execution and administration of the budget. This is a part of the process when things can deteriorate quickly. First, funds are typically delayed through the course of the year as the bulk of the funds start coming in during the third and fourth quarters and partially because this is when donor funding is made available. For MoFA, this affects the performance of several of their seasonally sensitive programs/projects such as the provision of seeds and fertilizer subsidies. Second, tracking expenditures and reporting on outcomes is generally weak, creating a challenge in managing the budget based on performance. Like many other African countries, the administration of the budget in Ghana relies on an activity-based budgeting (ABB) system introduced in 1998 with support from the World Bank and IMF. The goal at the time was to improve the tracking of resource flows to actual activities being managed by sector ministries. Although this makes it much easier to administer, monitor, and report on budget disbursements, the downside is that it fails to pay close attention to ensuring service delivery.

The effectiveness of executing the budget also depends on how well programs are implemented and this becomes problematic if there are insufficient resources due to budget cuts. This is a problem often cited by MDAs. As one interviewee noted, “The reality is that money never appears after the priorities are agreed.” Even donors do not always put money to fill gaps that the government has left out, even though this is precisely why the METSAIP was formed. Another interviewee commented, “...we layout the programs, then let the donors select where there are gaps as priorities...but we never got there with METASIP.”

Other issues affecting performance are related to the will and capacity to implement, as well as having in place a sufficient M&E system to monitor, evaluate, and guide future resource allocations. In fact, the difficulties of effectively allocating resources,

monitoring investment inputs and outputs, and reporting on their impact have constituted a typical argument used for the need of reforming the budgetary system to improve planning. Referring to this, one interviewee stressed, “Budgeting is bad—in terms of allocating resources to agreed priorities—there is no proper planning.”

Ghana has now been undergoing a reform of the budgeting system in order to convert to a more program-based budgeting (PBB) system. The conversion is intended to improve government accountability by linking resource flows to overall policy objectives and outcomes, as well as avoid duplication across projects and sector ministries. However, there is no guarantee the new system will work. Other African countries that have adopted PBB (e.g. Mozambique) produce budget data that does not turn out to be particularly useful because they fail to show what the money was spent on—just that it was spent (based on a recent assessment of budget data by IFPRI researchers).

The formal process certainly gives the appearance of an open process, given the extensive consultations between sector ministries and MoFEP, consultations within MoFA, and the review and oversight by parliament. However, it also highlights a few gray areas:

- how MOFEP decides on the budget ceilings;
- the parameters used in setting priorities within MoFA once the budget ceiling is known; and
- the extent to which evidence is considered seriously in influencing the approval and future prioritization process.

We now review what actually occurs based on narratives and observations shared by others.

## WHAT IS LESS KNOWN—THE GRAY AREAS

A key part of the budget process that is unclear is how MoFEP decides on the budget ceilings each year. In most cases it may simply be drawing on previous years to ensure recurrent costs are covered and the consideration of key policy priorities requiring capital investments. During such times, however, MoFEP may consult with other sector ministers. A general rule of thumb used for the MTEF by MoFEP, as pointed out earlier, is to examine the previous year’s allocations and ceilings and the actual amount executed. This has been sometimes used to argue against the MTEF approach as a “cost-minimizing rather than a development-optimizing process” (Heady et al. 2009).

According to some earlier interviews with MoFEP conducted by Headey et al. (2009), the ministry claims the ceiling is not fixed because ministries always submit their initial proposals with much higher figures. The test is on the ministry submitting a budget

proposal to be able to demonstrate and convince MoFEP of the importance for doing so. Typically, this rarely occurs—but it is unclear whether this is because of insufficient evidence to support the raise or if it is simply easier to retain past ceilings. While some of this makes sense for covering civil service salaries and other recurrent expenditures, some who were interviewed felt it was more a matter of convenience.

The degree to which there are any back-door negotiations on the budget ceiling for agriculture is uncertain. However, some of the experts interviewed also emphasized that the high-level political recognition of METASIP, and agriculture in general, in Ghana has certainly helped maintain some favor for the sector. But no one was sure how much back-door politicking takes place, except for the budget hearings with MoFEP and the cabinet where MoFA often has difficulty. Interviewees also pointed out that because MoFA faces difficulties executing its budget given the mistiming with the agricultural season—as pointed out earlier—this also puts it at odds with MoFEP in showing performance and justifying budget increases. This may imply that the ministry often has to rely on political support at the highest levels. For example, to ensure budget cuts do not occur easily for MoFA, there appear to be efforts underway (at least according to interviews within MoFA) to impose a trigger on MoFA's budget that it can never fall below the previous year's budget ceiling. If it increases at any time thereafter, a new baseline is automatically set. At the time of this writing it is not clear whether this was set in motion or not. A potential challenge is whether MoFEP would have less incentive for raising the ceiling under such a trigger mechanism.

Another gray area is how priorities are set for agriculture once a budget ceiling has been announced by MoFEP. Naturally, programs that are especially important, such as promised initiatives of the executive branch, get priority. The fertilizer subsidy program usually gets top priority, for example. According to expert interviews, it is very rare to have any debate on the amount going to the fertilizer program given its top priority at the executive branch level (President and Cabinet). As a result, the program has made up the bulk of MoFA's capital budget since its inception in 2008. Other initiatives that get a lot of weight include the mechanization, buffer stock scheme, and block farming (youth employment) programs.

While ideally these fit into the METASIP and broader country development strategy, how they do so can be arbitrary. This was brought up in the interviews and using the example of the fertilizer subsidy, a single and minor line item in the overall METASIP set of priorities. For other ministries, a similar ranking occurs, with executive branch initiatives getting priority, such as the school feeding program, the national youth employment program, and the livelihood empowerment against poverty initiative.

On the budget allocation decisions for the METASIP, a few unknowns emerged. First, simply knowing how MoFA's own budget is justified as regards other agricultural MDAs under the overall METASIP was not clear for most people interviewed. Another emerging challenge is understanding how the newly formed METASIP Steering Committee fits into the budget process, if at all. Conceivably, it is intended to play an oversight role on how both government and development partner resources are directed to investment priorities. As one interviewee commented, "If the METASIP Steering Committee is working properly, it would drive the priorities by directing more resources into agriculture. But this creates a potential conflict between it and MoFA on who determines the resources allocation within agriculture." The steering committee is still relatively a new player on the block and has no full-time secretariat to follow through and monitor the decisions made by all key stakeholders on the committee. A general consensus among all the experts interviewed was that the steering committee is very much needed but lacks the ability to follow through and influence both the budget process and development partners' activities and commitments.

The extent to which evidence is considered seriously in influencing the approval and future prioritization process is yet another gray area. While this occurs to some degree, it is not clear just how critical it is in influencing budget allocations, especially within MoFEP. While parliament can scrutinize and demand evidence in deciding whether the chosen priorities in the budget are the correct ones, it cannot really influence the allocations. MoFEP, on the other hand, can also demand this, and may have more leverage such as slashing the budget if they are unconvinced. This came out clearly in some of the interviews: "MoFA just doesn't sell itself very well."

But whether MoFEP actually exercises this as a rule of thumb is not evident, although they have been known to refer to the lack of sufficient evidence for increasing resources to agriculture (Headey et al. 2009; De Renzio 2006). According to a number of interviewees, this is where politics typically has an upper hand in pushing for some of the key initiatives and programs dear to the current ruling party. Parliaments can put some counter pressures too. For example, during one of the last hearings, one interviewee commented about how a parliamentarian asked the minister to return during the year to update him on the progress with implementation. The minister was also reminded to be more prepared to show how yields have increased as a result of the government programs they were defending.

The demand for evidence when scrutinizing the priorities and budget allocations introduces challenges for parliamentarians (Humado 2009). It is often difficult for them to carry out this task without a yardstick or technical guidance—in addition to a general

lack of good data and sufficient evidence to draw from. The capacity to effectively provide oversight and review therefore often depends on the individual parliamentarians involved. In the current year, for example, the chairman of the committee happens to have a PhD in an agricultural field and also sits on the METASIP's steering committee. He has actively scrutinized the agricultural budget while also serving as a key supporter of the METASIP and its broad policy objectives.

## CONCLUDING REMARKS

We set out in this brief to understand how decisions are made in allocating public resources to agriculture during the budget process. The objective for doing so was to try and grapple with a key unanswered question of whether the formal budget process is strictly based on a clear and formula-based approach or whether it involves a lot of gray areas that offer sufficient room for back-door negotiations or politicking, and if so whether this even helps to explain why agriculture can lose out in the process.

The formal budget process certainly gives the appearance of being guided by rules, given the extensive consultations between sector ministries and MoFEP, consultations within MoFA, and the review and oversight by parliament. However, a number of gray areas remain. We found these to be areas in which politics naturally play an upper hand—and are therefore difficult to examine

closely (Norton and Nelson 2002). Some refer to this as the “twilight zone” of the budget process (Wildavsky 1961; De Renzio 2006). Additionally, while evidence is sometimes used to influence the approval and future prioritization of activities in agriculture, the lack of sufficient quality data and weak transparency implies that the current budget process may not always link closely with the country's policy priorities.

While we have barely uncovered the real budget process in Ghana, the various accounts from interviews and other secondary sources has shown us that the budget process in general remains partially closed and lacks sufficient scrutiny on how well it links with the country's policy priorities and METASIP in particular. This was a general consensus among the experts interviewed and shares some of the earlier findings of Killik (2005). Efforts to get more information from MoFEP directly did not result in any further clarifications on some of the gray areas highlighted here.

Finally, combining this lack of openness with the lack of quality data and capacities of MoFA to tell a compelling story (plus having a long history of this) puts agriculture at a potential disadvantage in acquiring increased resources. However, so long as there is sufficient political support for the sector's goals and programs at the highest levels, this can be potentially reversed, or at a minimum, avoid a budget cut.

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