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THE EFFECTIVENESS OF MEDIUM-TERM EXPENDITURE FRAMEWORK  
IN PUBLIC BUDGETING: THE CASE OF GHANA

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YBU 2017

ANKARA YILDIRIM BEYAZIT UNIVERSITY

JUNE 2017

THE EFFECTIVENESS OF MEDIUM-TERM EXPENDITURE FRAMEWORK IN  
PUBLIC BUDGETING: THE CASE OF GHANA

A THESIS SUBMITTED TO THE INSTITUTE OF SOCIAL SCIENCES OF ANKARA  
YILDIRIM BEYAZIT UNIVERSITY

BY

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IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF SCIENCE IN THE DEPARTMENT OF PUBLIC FINANCE

JUNE 2017

Approval of the institute of social sciences

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Saudah Mohammed Sanni

## ABSTRACT

### THE EFFECTIVENESS OF MEDIUM-TERM EXPENDITURE FRAMEWORK IN PUBLIC BUDGETING: THE CASE OF GHANA

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JUNE 2017, 76 pages

Most countries for the past decades have adopted medium-term expenditure frameworks to replace the old incremental approach of budget process. For every country that wants to achieve growth and development goals, to improve its efficient use of limited public resources, obtain a long-term economic success, create the highest level of transparency and accountability in government funds, reform of ineffective system as well as processes are important. MTEF is a reform initiative aimed at targeting the budgetary processes which is entangled with various deficiencies. There is concern that despite the introduction of MTEF into the Ghana's budget process, it has still not resulted in much better budgeting outcomes of linking policy formulation, planning and budgeting, hence the rationale for this study.

This thesis investigates what lies beyond the introduction of an MTEF in Ghana; the effectiveness of MTEF in the public sector and how public resources are allocated in view of the medium-term perspectives. Questionnaires as well as interviews are used to solid data for this thesis. The thesis finds out among other things that Ghana's budget is based on

medium term approach and has achieved a lot throughout the implementation. However, there are some deficiencies within the medium term perspective to budgeting with regards to the connection between policy formulation, planning and budgeting; resources ceiling; sector working groups; comprehensiveness; allocative efficiency etc. which undermines the credibility of MTEF. Recommendations and suggestions have accordingly been made to improve upon the MTEF in Ghana.

Keywords: Medium term expenditure framework, public financial management, Medium Term budget framework, sectoral planning, aggregate discipline, top down resource envelope.



## ÖZET

### KAMU BÜTÇESİNDE ORTA VADELİ HARCAMA ÇERÇEVESİNİN ETKİNLİĞİ: GANA ÖRNEĞİ

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HAZİRAN 2017, 76 Sayfa

Geçmiş yıllarda pekçok ülke bütçe sürecindeki eski artırımcı yaklaşımın yerine, orta vadeli harcama çerçevesini (OVHÇ) benimsemiştir. Büyüme ve kalkınma hedeflerine ulaşmak isteyen her ülke için kısıtlı kamu kaynaklarının kullanımında etkinliğin artırılması, uzun dönemli ekonomik başarı elde edilmesi, kamu fonlarının kullanımında üst düzeyde şeffaflığının ve hesap verebilirliğin temini, etkin olmayan sistemlerin ve süreçlerin reformu önemlidir. OVHÇ temelde çeşitli eksikliklerin mevcut olduğu bütçeleme sürecini hedef alan bir reform girişimidir. OVHÇ'nin Gana'nın bütçe sürecine girmesine karşın; politika, planlama ve bütçeleme konularını ilişkilendirme ve dolayısıyla da bu tezin rasyoneli konusunda daha iyi bütçeleme sonuçları vermediği konularında endişeler hala giderilebilmiş değildir. Bu tez, Gana'da OVHÇ'nin uygulamaya konulmasının arkaplanındaneler olduğunu, OVHÇ'nin kamu sektöründeki etkinliğini ve kamu kaynaklarının nasıl tahsis edildiğini orta vadeli perspektifler açısından ele almaktadır. Bu doğrultuda tezin veri temini için anket ve mülakatlar kullanılmıştır. Tezde, diğer şeylerle beraber Gana'nın bütçesinin orta vadeli yaklaşıma dayalı olduğu ve uygulamalar sayesinde birçok şey başardığı sonucuna ulaşılmıştır. Bununla birlikte, orta vadeli perspektif ile politika-planlama-bütçeleme arasındaki ilişki, kaynak tavanları, sektör çalışma grupları, kapsayıcılık ve etkin tahsis gibi konularda OVHÇ'nin kredibilitelerini olumsuz yönde etkileyen bir dizi eksiklikler bulunmaktadır. Bu doğrultuda Gana'da OVHÇ'yi geliştirmek için tavsiyeler ve öneriler yapılmıştır.

Anahtar Kelimeler:Orta vadeli harcama çerçevesi, Kamu mali yönetimi, Orta vadeli bütçe çerçevesi, Sektörel planlama, Toplam mali disiplin, Yukarıdan aşağı kaynak miktarı

This work is dedicated to my dearest husband Mr. Salisu Musah who has been a constant source of support and encouragement during the challenges of graduate school and life. I am truly thankful for having you in life.

This work is also dedicated to my parents and siblings who have always loved me unconditionally and whose good examples have taught me to work hard for the things I aspire to achieve.

Finally to my children, Ilhaam and Mohammed Makeen. From my heart to your heart, Mom.



## ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to the Almighty Allah for given me the strength courage, and ability to bring this work to a final stage.

I am deeply indebted to many people for their immense contributions in diverse ways towards the successful completion of this thesis.

I would first like to express my sincere gratitude goes to my supervisor Prof. Dr. Tekin Akdemir for his guidance, advice, criticism, encouragements and insight throughout the research. It is a pleasure working with him.

Again my sincere gratitude to Prof. Dr. Hüseyin Şen for the continuous support throughout my study and this work. I appreciate his patience, motivation, and immense knowledge. The door to Prof. Şen's office was always open whenever I ran into problem spot or had a question about my research or writing. Without his credible patience and timely wisdom and counsels, my work would have been a frustrating and overwhelming pursuit

I am highly indebted and thoroughly grateful to Prof. Dr. Ahmet Kesik for his immense interest in my topic of research, for providing me with materials and links that I could not possibly have discovered on my own and for his kind words and suggestions.

I would also like to acknowledge Asst. Prof. Barış Alpaslan as the second reader of this thesis and I am grateful for his valuable comments on this thesis and being so generous for finding his precious time for me in his busy schedules.

The technical assistance of Mr. Metehan Cömert & Mr. Ümit Acar is gratefully acknowledged.

Finally, I must express my very profound gratitude to my husband and to my parents for providing me with unfailing support and continuous encouragement throughout my years of study and through the process of researching and writing this thesis. This accomplishment would not have been possible without them.

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## LIST OF ABBREVIATIONS

ABB	:Activity Based Budgeting
BPEMS	:Budget and Public Expenditure Management System
BSP	:Budget Strategy Paper
CABRI	: Consultative Africa Budget Reform Initiative
ERS	: Economic Recovery Strategy
IEA	: Institute of Economic Affairs
IFMIS	: International Financial Management Information System
IMF	: International Monetary Fund
GDP	: Gross Domestic Product
GoG	: Government of Ghana
GPRS	: Ghana Poverty Reduction Strategy
MDAs	: Ministries, Departments and Agencies
MoFEP	: Ministry of Finance and Economic Planning
MTEF	: Medium-Term Expenditure Framework
MTBF	: Medium-Term Budgetary Framework
MTFF	: Medium-Term Fiscal Framework
NDPC	: National Development Planning Commission
NDP	: National Development Plan
OECD	: Organisation for Economic Co-operation and Development
PBB	: Programme Based Budgeting
PER	: Public Expenditure Review
PFM	: Public Financial Management
PFMR	: Public Financial Management Reform
PRSP	: Poverty Reduction Strategy Paper
PUFMARP	: Public Financial Management Reform Programme
PPB	: Programme, Planning and Budgeting
SWG	: Sector Working Group



## TEZFOTOKOPİSİ İZİN FORMU

### ENSTİTÜ

Fen Bilimleri Enstitüsü

Sosyal Bilimler Enstitüsü

### YAZARIN

Soyadı :

Adı :

Bölümü :

TEZİN ADI(İngilizce):

TEZİN TÜRÜ: Yüksek Lisans

Doktora

1. Tezimin tamamından kaynak gösterilmek şartıyla fotokopialınabilir.
2. Tezimin içindeki özet, indeks sayfalarından ve/veya bir bölümünden kaynak gösterilmek şartıyla fotokopialınabilir.
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TEZİN KÜTÜPHANEYE TESLİM TARİHİ:

## CHAPTER 1

### INTRODUCTION

#### 1.1. Background to the Study

Majority of developing countries specifically Africa have been undertaking the Public Financial Management Reforms (PFMR) since the middle of 1980s to late 1990s. As stated by Leiderer, (2005), the step in the reform has been increased mainly because the earlier reform initiatives have either failed or proved to be ineffective due to what has been described as lethargy in the public sectors and the absence of political goodwill. Wynne (2005) also claims that the developing country's Public Financial Management (PFM) system suffers some deficits, especially with regard to budgets comprehensiveness and practicality as well as transparency and accountability in budget execution. These deficits emphasise on the need for reforms in the budgetary process to be initiated into better service delivery and accountability.

According to Le Houerou & Taliercio (2002), in 1990, the proliferation of the reforms reached at a peak and that motivated the start of a budgetary process called Medium-Term Expenditure Framework (MTEF). Under the initiatives of the World Bank this public sector driven reform processes were spread across the developing countries. Even though the World Bank has been seen as the main actor who championed this initiative, however, it has also been championed by the ADB and IMF (1999) respectively.

According to World Bank more than half of the countries in Africa had introduced the reform and were at the various process of adopting the MTEFs. The public service can be considered as the only tool available for all governments which Ghana is not an exception in the execution of the reform towards the achievement of developmental aims and objectives. The reform helped in creating a suitable and favourable conditions for the

sectors of the economy to perfectly accomplish its tasks towards the attainment of such goals (Public Expenditure Management Hand Book, 1998). Ghana's reform agenda was mostly driven by the public service, which serves as a catalyst for the effective and productive service delivery as it is seen to be an institutional memory and again serves as the linkage from one political regime to another. Based on the forgone report on the reform, the World Bank recommends that reforms must be public service driven and therefore their impact must be felt even after the lifetime of any political regime. All political advocates however, must board the reform boat in order not to sink in political water. It is therefore always essential to keep in mind that most of the reform measures do fail due to lack of political goodwill.

The PFM concerns about the basic means of government policy in the distribution and utilisation of public resources in an effective and efficient manner. While the expenditure policy attempts to find the response to the problem of what needs to be done, the expenditure management however, attempts in coming up with the response of how to do it. The economic development of any country depends on how efficiently scarce resources are allocated to achieve maximum returns. This allocation of the scarce resources can only be seen as effective during the budgetary process that is to say prudent financial management is the most important, hence the need for consistent and sustainable reforms to the budgetary process. It is obvious that governments in any country are being forced to devote and allocate more economic resources to fund old activities in spite of the fact that such activities are of less priority even when there are others which are with high priority and at the same time very urgent. In this regard, it is crucial for the public resources to be utilised as efficiently and effectively as possible since the society needs globally greatly exceed the available resources. Therefore, there is a need for governments to prioritise expenditures, curb any wastage as well as minimising incidences of corruption. In respect to this, it is critical to put in place a well-designed and transparent budgetary process to achieve these milestones.

According to a report by Bertly et al. (2012), like many other African countries, Ghana has implemented a series of public financial reforms with mixed results in terms of economic growth and poverty reduction. During the study, it is clear that there is deterioration in the credibility of the budget as well as inadequate focus on the linkage amid planning, budgeting, and policy formulation. For that reason, it is important to note that budget is the

primary tool through which the government's intentions with regard to policy are translated into actions on the ground. The budgetary process and the expenditure programme standards are, therefore, vital and key to the economic development of any country. It is clearly acknowledged by the Economic Recovery Strategy that the importance of public financial reforms is an essential element of the government reform agenda. It reveals the fact that the government is devoted to the maintenance of macroeconomic framework stability within the context of structural reforms that will lead to the creation of employment and wealth as well as reducing poverty. This cannot be attained without adopting reforms particularly in the budgetary process, which is essential in maintaining stable macroeconomic framework. Governments across the globe need a well-defined national policy with a detailed plan of expenditure and sources of revenue, henceforth the importance of the budget as a critical instrument to achieve the set objective of wealth creation and improve economic growth (ERS, 2003).

According to Public Financial Management Reform (2005), there are some basic principles to be applied during the reform process. These principles include the following: i) as part of the overall strategy, an implementable reform must be a domestic and country led. Nevertheless, it can still include the donors who may in one way or the other contribute funds, technical assistance, and ideas to help the reform strategy. However, the reform should be owned by the country; ii) a sound policy formulation at the macroeconomic level must be applied during the reform process which includes but not limited to specifying state's scope, macroeconomic guiding principles, the government structure/framework, and arrangement of major related bodies; iii) there is a need to manage this transformation (reform). In this case, government needs to use all the available resources including the human capital. It is emphasise that reform becomes productive and efficiently administered via ensuring a wholesome, respectful relationship with stakeholders and donors; iv) there must be an effective measure in the advancement of the reform and must be checked with performance set indicators and benchmarks in relation to mutually set goals; v) there must be a high degree of political commitment in the reform and should have a long term, firm and a continuous backing and benefit. It should be noted that financial reform in actual sense is a political process which indicates political costs and benefits. In every case, the reform requires shrewd political management support by a genuine will for change.

World Bank (2007) stated that, the continuous emphasis on good governance and the unfortunate borrowing conditionality from the “development partners” have also led to the embracement of the various reforms initiatives within the budgetary process. It argues that good governance comprises of public service that is efficient, effective, and accountable to public. In regard to this, accountability and responsiveness to the needs of customers have been seen as an essential feature of good governance.

The report by World Bank (1989, 1992) mentions four components of good governance, which are public service management and highlights the importance of effective public financial management with an improvement in budgeting; accountability in the public institutions, including effective accounting; a predictable legal framework for development and an independent judicial system; transparency and availability of information to enhance analysis in policy making, encourage public involvement in decision making process and minimise the risk of corruption. All the components mentioned above together with other factors have resulted to reforms in the public services with an intention of attaining good governance and to lessen the risks of corruption. Two most important reforms namely Integrated Financial Management Information System (IFMIS) as well as MTEF have been advocated by the World Bank and a group of other donors. However, this study seeks to investigate and analyse the effects of MTEF on the budgetary process.

Originally, the prime motive for the development of the MTEF was originated from countries including Sweden and United Kingdom who were faced with huge public debt (Seok-Kyun, 2004). That notwithstanding, the resent pattern of the MTEF could be officially and transparently ascertained in Australia, one of the first developed nations to pioneer the use of the reform for growth and public spending controls (Schiavo-Campo, 2009). The level of growth after the adoption of the MTEF in developing countries can be perceived as the primary component of the PEMR since the end of 1980s and early 1990s respectively. Simultaneously, the African region has since been adjudged as the “MTEF laboratory” for the World Bank which is accompanied alongside with a comprehensive application (Le Houerou & Taliercio, 2002). In some sense, we could say that the experience that the Africa regions have had with the MTEF has served as a tool for other regions to also emulate them by adopting this modern reform. Since it is obvious that Africa regions is the laboratory in the development of the MTEF, then the World Bank however, can be seen as the main researcher.

As a budgetary process, there have been numerous prospective logical bases or reasons for the introduction of the MTEF. Among them are macro-economic stability improvement via fiscal discipline, excellent allocation of public resources within and among sectors, enhancing greater budget predictability and socio-economic activities through an effective expenditure prioritisation, boosting the efficient way of using public funds, ameliorating accountability for the spending results and improving the budgetary credibility for policy decisions (World Bank, 1998). Specifically, by the year 2008, about half the number of countries globally had embraced the components of the MTEF of which Ghana is part. Certain frameworks of the MTEF, however, varies between countries and this is due to the reflection of different reason for which each and every country adopted the reform (Kasek & Webber, 2009). The medium term perspective to budgeting effectively linked policy formulation, planning and budgeting and has become an essential component procedure to budget management and to large extent has become a broad method towards the world's growth. The call for introducing MTEF as a budgetary process depends on its ability to connect the frequent challenging short term imperatives of the macro-economic stabilisation with the medium to longer term request on the budget in order to help in boosting policy making, planning and to effectively and efficiently enhance better service delivery. Besides the initial developers who started the modern approach to PFM are from the OECD countries, this approach has now been wholly or partly embraced in many non-OECD countries as well. It is recognised as a unique essential mechanism to associate government priorities lay down in Poverty Reduction Strategy Paper (PRSP) into the national budget. For this reason, it is perceived that the annual approach to budgeting has really impaired the performance of budget causing fiscal instability, misallocation of the resource as well as unproductive and inefficient use of public resources. The fragmentation of the relationship between policy formulation, planning and budgeting; management of policies and resources from both sectors and agencies in the non-OECD countries have been the problem and cause of this focus. Lack of sustainable aggregate resource constraint in the annual budget has led to the insufficiency discipline in policy making, planning and management. The impacts on the development which need a medium to longer term approach have been regularly and continually hindered through the short term imperatives of fiscal policy. The unpreventable instability of the annual budget can only be effectively managed through the ability to see how budgets are lined with the medium to longer term priorities. The MTEF has become an essential element of PEM reform programmes



considering the disintegration between the public development, objectives and budget priorities. The relation which exist between expenditure framework, fiscal management and macro-economic can be seen as nearly associated and connected (OECD, 2009).

According to the report by Anipa, et al. (1999), the Public Financial Management Reform Programme (PFMRP) established in 1995 included MTEF as a new policy under the auspices of the Finance Minister at the time. PFMRP was formally launched in 1996 beginning with the operation of PFMRP Secretariat and Project Management Team (PMT) to harmonise the programmes after the government of Ghana had carried out a Public Expenditure Reform (PER) in 1993 and 1994 respectively. It was realised that there were some weaknesses which mar the credibility of the budgetary process. The report also discovered the lack of proper accounting; improper auditing; unreliable, precise and well-timed information to enhance management decision making. The MTEF was to help the budget sustainability and more importantly to the attainment of the vision 2020 of Ghana. In addition to this, it was perceived that there was a greater extent of enhancing the connections between policies, planning and budgeting structure and procedures both at the district and sector levels as well as the agencies levels. The most important goal of the MTEF is the enhancement of the endowment which the government makes in terms of developmental outcomes. With regard to the budget outcome, MTEF is thus aimed to i) improved stability in fiscal policy; ii) boost resources allocation and expenditure on strategic policies; iii) link policy making, planning and budgeting and effectively and efficiently improve service delivery to its citizens. In as much as the MTEF has been advanced and become the modern budgetary process, it is important to emphasise on the discipline it provides in terms of improving all stages on policy formulation, planning and budgeting.

## **1.2. Statement of the Problem**

Before the introduction of the MTEFs in 1996, the government of Ghana embarked on PER in 1993, 1994 and 1995 respectively and it was disclosed that the government policies, objectives as well as the priorities clarified in its development plans did not reflect the annual budget. Ghana had been using the traditional budgeting system which is also known to be a line item budget whereby Ministries were requested to allocate or increase in their budget based on their programme inputs and the estimation of the “revenue envelope” by the Ministry of Finance in accordance with incremental projection. This

method of projecting the revenue envelope has restricted the interpretation of the macro framework and has therefore created some systemic deficiencies in the estimations of the MDAs expenditures. The budget system was not guided by developmental priorities and fiscal targets set. The previous budgeting process system had serious weakness leading to a necessity to curb overspending. Moreover, the old traditional budgetary process has failed to connect policy formulation, planning and budgeting and has therefore led to the MDAs not to achieve their set objectives with the level of resource availability. In addition to this, there has also been lack of flexibility or minute effort in reprioritising programmes as resources decreased. Consequently, this has caused programmes with low priority to be given an equal degree of fiscal importance as a high priority of programmes. MTEF is meant for linking the three to increase resource allocation as well as achieving the stated objectives of reducing poverty and wealth creation. However, it is neither clear nor any literature available which establishes a connection between policy formulation, planning and budgeting in Ghana. There is great danger that the traditional budgetary process is gradually creeping in. This unpleasant situation justified for a study to determine whether a policy, planning, and budgeting are linked through MTEF budgetary process.

### **1.3. Objectives of the Study**

The objectives of this study are categorised into two sections. The first part tackles the general objectives. Here the MTEF's effectiveness on the Ghana's budgetary process is discussed. The second part deals with the study's main objectives. Thus the main objectives of the study are:

- i) To ascertain the flexibility, transparency, and the comprehensiveness of MTEF process.
- ii) To determine the significance of the subsequent years indicative ceilings of MTEF
- iii) To determine the predictability of resource envelope.
- iv) To identify whether or not the reform process has connected the objectives of the policy with the outcomes of the budgetary process and thereby enhance the use of resources in order to attain an excellent result as well as the value for money.
- v) To find out how the implementation of MTEF has helped the process of budget efficiency in the country.

#### **1.4. Main Research Questions**

As the aim of the study stated above was to determine the effectiveness of the MTEF on the budgetary process in Ghana, the following are some of the questions which are constituted in order to attain the research objectives.

- i) To what extent does the MTEF improve the flexibility, transparency, and the comprehensiveness in the budgetary process?
- ii) How does incremental budgeting differ from MTEF?
- iii) How predictable is the resource envelope under MTEF process?
- iv) What is the significance of the subsequent year's indicative ceiling of MTEF?

#### **1.5. Significance of the Study**

This research is intended to strengthen the framework of the PFM, transparency and accountability; to demonstrate the usefulness of the MTEF as part of the PFMR and to resolve the lack of institutional barriers against off-budget and back-door spending problem.

The findings of the study however are useful to the ministry of finance because they tend to be as a guide to the MTEF budgetary process. The findings will serve as the evaluation tool for those in charge with the budgetary process since they provide mechanism for getting opinions from the line ministries where implementations of the budget are done. The recommendations are of important to the Ministry of Finance, Ministry of Planning and National Development, and the realisation of the Vision 2020 programmes in Ghana because they provide the opportunity to review the numerous policy documents which are not linked to budget as anticipated by the MTEF. The study is also important to the various committees and fiscal analyst in the parliament as it will help them to understand the MTEF budgetary process. Lastly, the study is also beneficial to the general public as it clarifies the MTEF process to them.

#### **1.6. Limitations of the Study**

In a study like this there must be some kind of constraints and challenges that may hinder the research work in one way or the other. The first challenges that the researcher

encountered during the study was the lack of adequate time. The time available for this work is too short for a proper gathering of relevant materials for the study.

The second problem is the insufficiency materials needed for the study. This is due to improper ways of keeping records in the public services which are responsible for budget implementation. Despite all the aforementioned limitations the researcher was able to gather necessary data to embark on the study.

### **1.7. Organisation of the Study**

This study basically consists of five chapters. Chapter one deals with background to the study, significance of the study, linkage to statement of the problem, objective of the study, research questions, limitations as well as the organisation of work.

Chapter two reviews literature on Medium Term Expenditure Framework, the budgetary decision making theories, definitions of MTEF, stages of MTEF and their characteristics, general features, objectives, MTEF process, comparison of single year budgeting with the MTEF, budgetary system and the medium-term expenditure in Ghana. Chapter three will look at the methods used in the study. It comprises the research design, population, sampling techniques, sample size, instrument used in data collection. Chapter four concentrates on the data presentation and analysis of the study whiles the chapter five considers the summary of findings, conclusion and the recommendations made.

## CHAPTER 2

### THEORETICAL FRAMEWORK AND LITERATURE REVIEW

This chapter reviews government budget decision making theories as well as institutions that deal with the budgeting. The chapter also deals with early theories that are related to medium-term expenditure framework over time, definitions of MTEF, stages of MTEF and their characteristics, general features, objectives, MTEF process, single year budgeting and MTEF comparisons and how Medium-Term Expenditure Framework of Ghana's budget looks like.

#### 2.1. Budgetary Decision Making Theories

In order for a country to be able to survive globally it needs massive resources of financial nature. 'Budget' as a word is known in the Oxford Advanced Learner's Dictionary as "an official statement by the government of a country's income from taxes, etc. and how it will be spent".

Another definition of a budget by Lucey (2003), "is a quantitative expression of a plan of action prepared in advance of the period to which it relates. It is a plan expressed in terms of money which is prepared and approved prior to the budget period and it shows income, expenditure and capital to be employed"

Appiah-Mensah (1993), in explaining budgeting stated that "it is the way and means of preparing budget and that a budget is a plan of action which has been prepared and approved prior to the period when it will be used, detailing monetary, quantitative or other

descriptive terms, the event to be accomplished in the budget period". His definition clearly distinguishes a budget from a forecast in the sense that budget deals with managing events formally within a given period of time as anticipated by the decision makers.

According to Petkova (2009), budget is a document that mandates the government through parliament's approval to make some gains in terms of revenues, accrue some debts and sanction some expenditure in order to attain a given objectives. Budget being the source and application of financial resources plays essential roles in government's effort to govern and deal with the functions such as economic, legal as well as political. These functions can be sufficiently accomplished when there are all encompassing and transparent budget which in turn follows clear rules and procedures to ensure connection of budget process with major units. For these objectives to be attained, there should be a framework, laws and principles for budgeting. Included in the framework is the following: i) annuality: This explains that a budget preparation and execution should be for a period of one year; ii) universality also indicates that all the government related revenues and expenditures should be recognized in the budget; iii) unity also talks about incorporating within the same budget all revenues, expenditures as well as the necessary financial obligations; iv) pooling of resources in one account instead of allocating funds to a specific expense or an institution. It recommends that common funds that receives all revenues must be a means of financing all expenditures; and v) all operations related to finance should be classified.

However, there are numerous budgetary theories and among the known budget theories are incrementalism, garbage can and rational theories respectively and are further discussed below.

### **2.1.1. Incrementalism Theory**

An essential activities in planning as well as management is budgeting where revenues and expenditures for a financial period are estimated. There are several common approaches in estimating budget and among them is the traditional incremental budgeting. In this kind of approach, the preparation of budget is typically based on two alternatives. It is either the amount is estimated for the current year or provisions are made based on last year. There may be some additions or deductions purposely for sustaining budget changes in the subsequent financial year. When apportioning funds to various ministries it is possible and quite common to get the same percentage increase or decrease calculated for all the budget

lines. Dealing with financial commitment related to salaries however does not follow the usual practice as it involves recruiting and firing of permanent staff. Hence salaries are considered a long term activity and so attention is being paid to other budget lines instead.

According to Schick (1983), incrementalism is an estimation method which is adjusted for small marginal changes in policy from the existing policy. It is a backward looking process that adjusts expectations based on the past performance. Rather than discontinue policies, the government adjusts them to improve and adapt them into the current environment. The argument is that the entire budget should be kept updated to minimise cost of research, misunderstanding and ultimately maintain the purpose of the budget and what is expected of it while also reducing time spent on budgeting so that there is more room to take into account the important political values. Wildavsky (1964), in developing his theory of incrementalism mentioned that, the budget is not a comprehensive but rather incrementally based. He further explained the impossibility of annually reviewing a whole budget actively. On the contrary, it is “based on last year’s budget” while attention is paid to the slight changes in some items. Incrementalism seemed to meet the test of a paradigm in terms of establishing a framework which is based on broad theoretical view and research questions (Kuhn, 1970). Economic and political factors were included in the models that are empirical in nature. However, they had little impact on the results (Wildavsky, 1975). By the late 1970s, incrementalism was under attack and deemed inadequate to explain the rapid changes in budgeting. This theory on incrementalism reflects the era’s budget environment. Government could work to absorb tax revenues that were increasing which was also termed as “budgeting for growth” (Schick, 1990:1-25). It subsequently had an effect on both the expansion and strategies of various agencies as well as their steady growth. Budgeting was presidency centred to the extent that the executive budget was a definitive policy statement for the appropriations process but the emphasis was also on agencies and sub-committees. The normative basis of incrementalism was not welcomed by considerable number of reformers. Also reforms that surface at the time were basically for the purpose of making budgeting more rational and informed.

### **Merits of Incrementalism**

This type of budgeting approach is popularly known of its simplicity in terms of calculations, understanding and straightforwardness. Normally, it is highly useful in stable budgets as yearly changes it end up producing a new budget. Consequently, this type of

budgeting brings an assurance of funds availability especially in a situation where the budget is prepared to last for more than a year.

### **Demerits of Incrementalism**

In spite of the advantages of the incrementalism, however, it poses a lot of problems. In this approach, resources are allocated with respect to the current known events. However, anytime there is a change, especially in coming up with entirely a new project, it ends up disrupting the budget. Due to this, new developmental projects or activities are rarely introduced. There is also no motivation in reducing spending as funds to be made available for a project in the coming year is based on the spending made on similar projects in the current year. No one is therefore motivated to minimise the cost. Also 'use it or lose it' attitude overshadows most budget spending units as there is always a norm of losing such money if one fails to use it on the project it is allocated for in a given year. In a nutshell, it is always assumed that an available level of funding is most appropriate and an ideal yardstick for making any changes in a coming year regarding funding of projects. This assumption does not always hold to be true as each financial year comes with its unique projects and accompanying financial needs.

According to LeLoup (1978), there have been numerous concerns raised regarding the theory of incrementalism method in budgeting which does not comprehensively take into consideration the era and environment. The theory contradicted budgeting outcomes with mutual adjustment as well as the processes of bargaining. Bailey and O'Connor (1975:66) stated that "when incrementalism is defined as bargaining, we are aware of no empirical case of a budgetary process which is non-incremental." Review of the agency budget outcomes, even in the instrumentalists' own data revealed that there was a great deal of variation in budget results which are far more than the 5 to 10 percent range. A research showed that using requests in the president's budget was a poor measure of actual agency behaviour in the budget process (LeLoup, 1978). Methodological problems were found as well, including evidence that the high R squared values were a result of not controlling for collinearity in the data (Wanat, 1974). Incrementalism was built on a series of analytical choices that severely reduced the chance of the theory's application. This in turn led to the inability of the theory to explain the kinds of changes happening in 1970s and 1980s'



budgeting. This theory is also known not to be tackling budgeting comprehensively but rather on partly basis. Incrementalism theory system gave no room to top down budgeting but rather tried to deal with budgeting from down to top. It deals with agency budgets and pays less attention to budget on a macro level. Again budgets prepared using this approach are concerned with changes within a given financial year and do not extend beyond that. Mandatory expenditures were not separated from discretionary ones. Budget totals, revenues, deficit or surplus and the other budget measure outside the appropriated accounts were ignored. More than anything, incrementalism disintegrated as a paradigm because it became irrelevant for explaining what was really happening in the world of budgeting. Considering the loopholes pointed out and the consequences of the incrementalism theory led to a rigorous transition where unique ideas, concepts and other approaches were introduced in the quest to explain various amendments made in the new ways of budget practices hence the introduction of the MTEF.

### **2.1.2. Garbage Can Theory**

Another approach to budgeting which is the “garbage can” theory detailed by Cohen et al. (1972), was explained to have four independent streams; the current problem, the solution, the people involved and choice of opportunities. Therefore for every decision to be made, the problem at hand, possible solutions, people involved and choice of opportunities have to be considered causing decision to be random in outcome and unpredictable. Evidently, the so-called garbage can theory was intended as a way to represent organisational choice more realistic than rational decision theory which was originally developed for individual choice behaviour. The theory has been applied to decision-making in various organisations and it is no exaggerations to suggest that its appeal has most obvious in governmental- type organisation. The garbage can theory raises some puzzling problems about the practical usefulness of theories modelling in public sector decision-making. The rational decision theory has a long standing as a useful tool for solving problems in the public sector. Actually, adherence to planning, programming, and budgeting (PPB) modelled the public sector funding on the image of a comprehensive rational decision theory (Novick, 1965, 1973), thus seriously overstating the case for rationality in organisations (Wildavsky, 1975). Yet, it seems as if the practical conclusions of the garbage can theory are non at best and useless at worst. To sum up, the garbage can theory scores high in model simplicity

but is weak in terms of deductive power and falsifiability. Its degree of empirical confirmation is contested whereas its practical usefulness is not obvious.

### **2.1.3. Rational Theory**

The rational theory according to Hamilton & Flavin (1986), suggests that despite the limiting factors in the budget process in the short run of poor economic performance and the non-acceptance of the increment of tax by taxpayers, the budgeting process would still be forward looking and the decision makers will still plan the budget for a longer duration despite the short run constraints.

The entire three theories attempt to clarify the rationale behind a yearly based budget preparation. However, yearly budgeting approach led to the awareness of fiscal instability, misallocation of resources, poor budgetary performance and misuses in the allocation of resources, hence the introduction of multiyear expenditure estimates that map the longer term plans into the short term budgets (Petkova, 2009). The MTEF which several African countries have embraced is therefore seen as all-encompassing and more satisfying approach to budgeting.

Academically, Todorovic & Djordjevic (2009) defined budget as the basic tools where by government raises revenue from the economy in adequate and proper manner and utilises those resources effectively and efficiently. Alternatively, a generally agreed explanation of public budget is a document which reveals government's revenues and expenditures over a specific given time period. While "Ex ante" reveals the government planned programmes of activities and how to fund them, "Ex post" however, defines the programme of activities undertaken by the government and those responsible for the payment and in which kind (Von Hagen, 1995:28-29).

Von Hagen (1995) explains budget as an outcome of the budgeting process through which decisions are made based on the utilisation and financing of state resources. The collection of formal as well as the informal principles, rules and procedures in regulating budget planning, approval and implementation are control by the process of budgeting institution through the executive and legislature. The process of budgeting is categorised into various stages under the budgeting institutions which decides who perform which duty and when in every stage as well as controlling how information is being circulated among different actors. In respect to these, budgeting process performs a legal function in providing

framework through which competing demands on the state monies are shown and reconcile with one another. In overall sense, state budget is grouped into two major functions which include the economic and financial functions. The economic function deals with the extent at which government uses national budget to influence the whole economy. Government in its attempt to make a fair allocation of income and wealth, start by determining the entire public activities within the economy and then put some measures over the whole level of economic activities which are normally referred to us as allocation, distribution and stabilisation policies. While the allocation policy seeks to describe the respective scope of the public as well as private sectors, the budget ascertain the entire activities of the government and identify which activities are to be publicly accomplished. The Distribution policy on the other hand, focuses on government's ability to rectify some lack of equity in wealth and income allotment among citizens. Stabilisation policy, however, is geared towards government intentions to enhance the overall economy within the budgetary policy. Besides, the function of financial budget is to evaluate the overall spending on both government and state agencies within the budget sectors and to act as the governmental body's machinery for accountability and authority beyond the government in administering its financial matters (Hughes, 2003).

The policy and procedures in raising and distributing state resources among sectors and agencies in order to perform government functions can be shaped and controlled through the budget institutions. Accordingly, for every country to be able to outline and execute effective fiscal policies, it is crucial to have in place a sound budgeting institution. The aforementioned institutions assist in ensuring accountability and preventing the misuse of state funds; improve effective utilisation of limited state resources; enhance the element of maintaining fiscal stability and carrying out social developmental needs. More importantly, countries with low income level have increased effort to strengthen budgeting institutions as a consequences of instability, high binding of resources constraints and public needs which still remains as a pressing issues. In this era of global financial crisis and the effects it has on the less income countries especially have strengthen the significance of sound budget institutions in order to enhance effectiveness in the fiscal policy as a stabilisation mechanisms (Dabla-Norris et al., 2010).

Shah (2007), deduced from his study that one of the major condition necessary for good fiscal performance is a sound institutional design of the budgetary process. Effective

budgetary institutions are essential solution to curb the adverse impact of the principal-agent connection between electorates and politicians. The competitiveness as well as the accountability are usually affected by the surroundings of the budgetary process within which the latter emerge. This, if strengthened, will ensure budget comprehensive, transparent, and to large extent ensure better understanding of the budgeting as a management exercise. Therefore, better fiscal outcome is intended to be attained through the institutional reform policy of the budgetary process. That notwithstanding, altering the policy as well as the legal process do not guarantee an excellent outcomes. Experimental experiences establish that the institutional surroundings within which the budget processes emerge shape the outcomes of the policy making in an orderly manner and this has contributed significantly in achieving better fiscal outcomes.

Briefly, public budgeting process aimed at fulfilling various government essential functions. Some of the functions mentioned above comprise of exercising financial control over inputs to ensure fiscal discipline, instituting budget priorities that are systematic with the orders of government, directing government's operations to ensure efficiency, planning expenditures to follow a long term vision for development and providing an accountable mechanisms of the government performance to citizens (Shah & Chunli, 2007). The usage of modern approach in managing the state's economy has compelled the expansion significantly in budgets process. That notwithstanding, there has been some discrepancies faced by public services with regards to achieving an effective and productive utilisation of resources, effective resource allocations, deficits as well as the gradual increase of public loans. However, as a result of this, a significant manner in controlling the public spending which is the most basic function of a budget has been emphasised by the practitioners as well as the theorists through their studies in order to introduce modern approaches to heal the aforementioned problems (Todorovic & Djordjevic, 2009).

## **2.2. The Medium-Term Expenditure Framework**

The MTEF perspective to budgeting has gained a solid ground throughout the world for many decades now. This is obvious due to the deficiencies in which most countries have realised in the traditional annual approach to budgeting process and has actually weakened the budgetary performance and led to fiscal instability and even more basically brought about misallocation of public resources and lack of effective and efficient utilisation of state resources. In order to reduce the massive budget fiscal deficits confronted with most

countries from the end of the 1980s to the early 1990s, the countries initiated and hammered the important of public sector reforms which incorporated modern approach to budgeting. As time goes on, they slowly moved away from the old incremental annual approach to budgeting execution to an up-down budgeting approach. The new reform established in the Public Finance Management in which the MTEF approach is affiliated to consist of the up- down and bottom- up approaches in an official way where strong institutions were created in assisting its execution. The MTEF attempts to shape the budget in wider programme that describe the policy objectives of government and to also connect the strategic outcomes, therefore, intending to link policy, planning and annual budget.

Before one can actually define and understand the MTEF as an operational concept, it is important to expatiate and differentiate three fundamental levels of development within the content of the frameworks. These three developmental levels include the Medium-Term Fiscal Framework (MTFF), Medium-Term Budgetary Framework (MTBF) and MTEF. The first and foremost stage towards the MTEF is the MTFF. The MTFF is made up of statements which include budgetary policy objectives, harmonising the medium-term macroeconomic, estimations and fiscal goals. The second level has to do with the MTBF that is strengthened on the basis of the initial stage by evolving the medium-term budget projections for the spending managers from all the sectors within the government. The prime goal of the MTBF is to ensure the allocation of public funds towards government's priorities and also ensuring that distributions are in line with the overall fiscal goals. This will enhance the predictability level within the budget as well as the fiscal discipline (OPM, 2000).

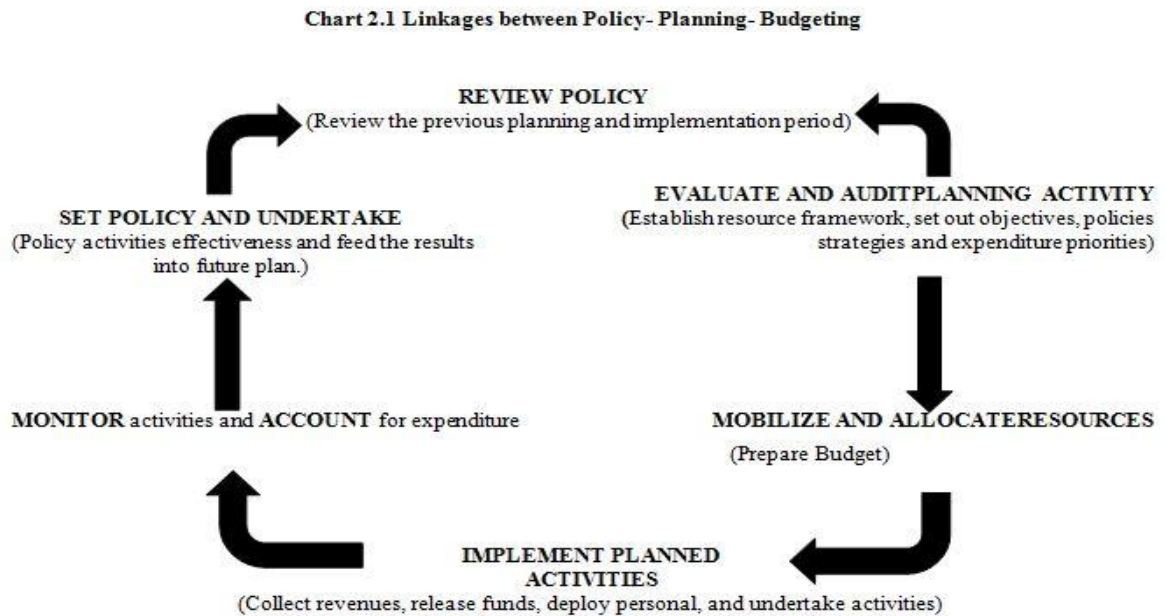
According to Cangiano, et al (2013), "MTBF is an institutional arrangement" which oversee the government's prioritisation and management of revenue and expenditure in medium-term perspectives. The framework gives the government the sole authority to establish the impact of current and to put forward policies and future budget priorities so as to attain better control of public expenditure. The MTBF usually comprises of a wider range of framework for medium term fiscal policy planning. In spite of the fact that MTBF in itself is not the same with multiannual budget in which appropriations are authorised for longer period other than one year, it however, provides a range of limitations on the future budget and maintaining consistency in the annual budget. There are many reasons for introducing MTBF which varies from one country to another. However, the commonness

and principal reasons are to strengthen the sustainability of the public funds. This can be done through the prevention of tendencies which arise as the result of sharp increment in the expenditure level and to reduce the fiscal balance. The MTBF can also help in promoting the most effective and efficient allocation of public resources to achieve value for money. This can only be achieved by reallocating expenditure from less demanding priority to higher priority areas. An MTBF can again help in more efficient use of public resources. A very well-defined MTBF can only not improve resource allocation but can also promote efficient use of resources by way of creating the most stable and predictable situation under which MDAs plan their expenditure.

MTEF however, is a medium-term framework which further expands its medium-term perspective by way of increasing the components of outputs as well as activity-based budgeting to the MTBF. All the aforementioned processes attempt to boost value for money in the public budget and to also strengthened fiscal discipline and prioritise government's strategies. MTEF which is the basis for medium-term approach to budgeting was known to have been advocated by the World Bank and IMF. The general and critical aim of embracing the MTEF as a budgetary process was to reinforce the connections between policy formulation, planning and budgeting; improve resources predictability; and to implement how strategic resources distribution can be enhanced in policy decision making process. It was also congregated as a mechanism to encourage discussions and dialogues; improve transparency and accountability within the public sectors and to restrain decision making by the available resources (World Bank, 1998).

According to Le Houerou & Taliercio (2002), the most critical element which contributes to the inefficiency in the outcomes of budget at the strategic, macro and operational levels in the low income nations is due to the inability to connect policy formulation, planning and budgeting. It is also noted that when there is lack of connection between policy making and budgeting, the annual budget expenditure is formed on an impromptu regardless of the marginal discretionary, allocations cannot still be predicted. Additionally, the problem relating to the lack of predictability in the resource envelope from one year to the other as well as in the budget year, unsuccessfulness in directing resources to policy priorities in budgeting are the other weaknesses which has contributed to budget ineffectiveness. There is also a lack of funding exercise being directed to policy based and the expenditures are

not limited to the available resources in annual budget. The chart 2.1 below shows the linkages between policy formulation, planning and budgeting.



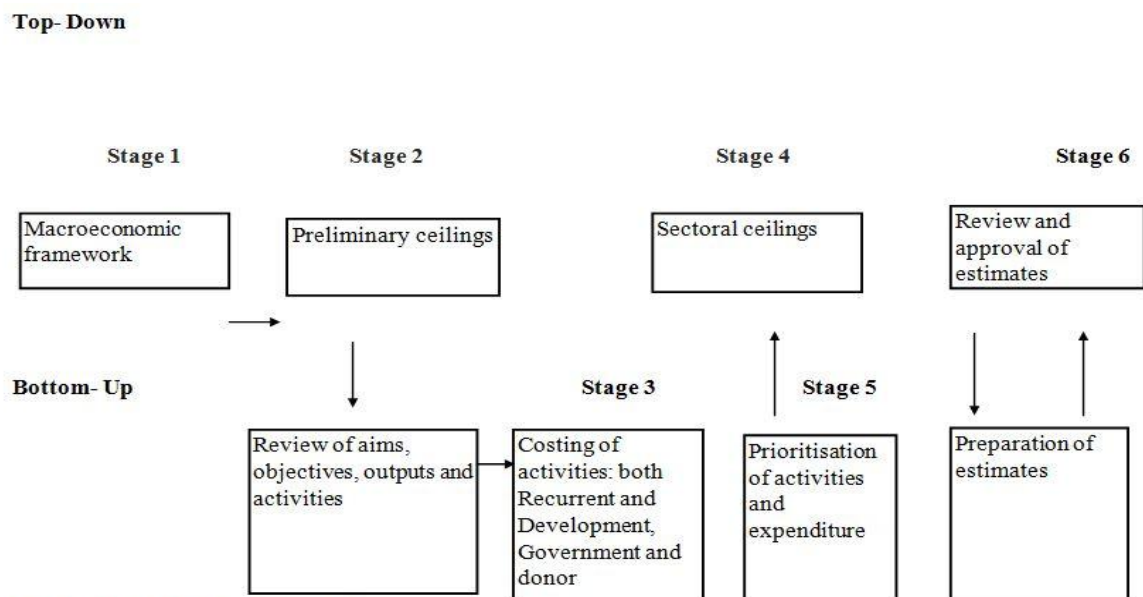
Source: World Bank (1998)

As established by World Bank (1998), MTEF aimed at assisting the progress of many significant outcome such as the greater budgetary predictability; macroeconomic balance; efficient use of public funds and enhancing inter and intra-sectoral resource allocation. Enhanced fiscal discipline and macroeconomics balance are achieved through good appraisal of the available resource envelope that is beneficial in making the budget fit within the envelope. A larger budgetary predictability is attained due to greater pledge to plausible sectoral ceiling under the MTEF is extensively producing greater political accountability for expenditure outcomes and legal budgetary decision. Additionally, in terms of the budget management, MTEF gives line ministries an appreciable level of freedom. However, the freedom is allowed within the budget limitations' framework as well as programmes and various policies that significantly make public expenditure more efficient and effective (Ighodaro & Oriakhi, 2010).

MTEF includes a top-down resource envelope, a bottom-up estimation of the present and medium-term costs of existing policy and finally corresponding these costs with the resource available in the framework of the annual budget process. The “top-down resource envelope” is basically a macroeconomic model that depicts estimates of revenues and

expenditure and fiscal targets, together with financial obligations of governments (World Bank 1998). The sectors employ “bottom-up” reviews that start by closely examining sector policies and activities in order to complement the macroeconomic model. This is the same as the zero-based budgeting approach which optimises intra-sectoral allocations (Ighodaro & Oriakhi, 2010; Kighir, 2013). The merging of the top-down resource envelope with the bottom-up sector programmes have added some value to the MTEF approach as shown below.

**Chart 2.2: Six Stages of MTEF (Top Bottom /Bottom Top)**



The diagram above exhibit the linkage between policy making, planning, and budgeting processes. Budgeting procedures, planning and policy making are combined at stage 3. The government determines the sectoral resources allocations, which are subsequently utilised by the sectors to wrap up their programmes and budget after the strategic expenditure framework is developed. Review in the sectoral process is designed with the aim and understanding that, sectors have the management independence to make decisions that maximize technical results like efficiency and effectiveness. This autonomous is exercised within the context of scarce resource of the framework and government policy. The development of the MTEF is a type of rolling budget on the ground, where the initial outer year’s estimates forms the basis for estimating a budget meant for the years ahead. To determine this, changes related to policies as well as economic situations are first taken care of. The integration process that includes bottom-up divisional programs with



resources envelope of top-down takes place through an official process in the decision making which increases resource predictability and strengthens the connections between macroeconomic balance and related institutional structure that helps in preparing and implementing strategic resource allocation decisions (World Bank, 1998).

Le Houerou & Taliercio (2002), by studying the subject and analysing the lessons learned from the models implemented in Africa, synthesized the stages of the MTEF stages in the table 2.1 below:

**Table 2.1: The Stages and Characteristics of the MTEF**

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

Source: Le Houerou & Taliercio (2002)

## 2.3. Core Concept of the MTEF

### 2.3.1. The Definition of MTEF

The term ‘MTEF’ has no concise meaning, rather it serve as an extensive principles for solid budgeting which are executed in distinct ways in various institutional settings.

According to the World Bank (1998:48), MTEF is “a whole-of-government strategic policy and expenditure frameworks within which ministers and line ministries are provided with greater responsibility for resource allocation decisions and resource use”. Basic components of the MTEF includes, top-down resource envelope, a bottom-up evaluation of the current and medium-term cost of present policy and directing these cost with resource

availability in the yearly budget framework. Fundamentally, “top-down resource envelope” is a macroeconomic model which estimates revenues and expenditure and exhibits fiscal targets. The sectors engaged in “bottom-up” analysis which starts with a thorough examination of programmes and policies of sectors with the aim of intra-sectoral distribution maximisation as an addition to the macroeconomic model (Le Houerou & Taliecio, 2002).

MTEF is again described as “a multi-year public expenditure planning exercise that is used to set out the future budget requirements for existing services and to assess the resources implications of future policy changes and any new programmes” (Pearson, 2002).

Others defined MTEF as “a rolling budget that covers the current budget year and the next two budget years. It contains a macroeconomic framework with a forecast of revenues and expenditures in the medium term, a multi-year sectoral programme with cost estimates, a strategic expenditure framework, a plan for allocating resources among sectors and detailed sectoral budgets”(Economic Commission for Africa,2010). Adding to the above explanations, Andrew Graham defined MTEF in the developing countries as a fiscal planning framework that emphasises on vital component of the planning process in order to affirm its balance and anticipate results on a solid connection of inputs, a harmony and clarity within the budgetary processes. However, developed countries are only able to connect established and integrated financial planning procedures in order to instil fiscal discipline, predictability and complete reliability with regard to estimated results through MTEF. It’s obvious that due to diverse situations faced by each country, implementations of the MTEF in every country differ in practice. Basically, planning, policy making, and budgeting are connected to MTEF by infusing a medium-term perspective and allowing for policy choices to enhance long-term development as well as directing expenditure to the government’s priorities and budget discipline.

Briefly, MTEF can be defined as an important element of the annual budget process which normally comprises a top-down resource envelope in accordance with the macroeconomic stability and broad policy priorities; a bottom-up estimate of the current and medium term cost of existing programmes and activities; and an iterative process of decision-making, matching costs and new policy ideas with available resources over a rolling 3-5 year period (ODI, 2005).

### **2.3.2. General Objectives of the MTEF**

World Bank (1998) argues four major determinants leading to poor budgeting results in conventional budgeting. They include: i) inability to connect policy formulation, planning and budgeting; ii) unpredictability of funds iii) lack of channelling the available resources to policy priorities; iv) line ministries are not given enough mandate and responsibilities in managing resource available to them. Policy making, planning and budgeting are being detached from each other and will not be bounded by strategic priorities and resource availability in the absence of efficient decision-making processes. This has generally led a huge disconnection between what the government promised in its policies as well as what is accessible. It has also led to the yearly budgeting process which is seen as a purpose of allocation to be rather seen as a struggle to keep thing adrift. Those flaws promote the establishment and execution of the medium-term framework for connecting policy formulation, planning and budgeting which may be attained gradually at a pace that is suitable for country's capacities.

Furthermore, MTEF aim at assisting various essential results by enhancing macroeconomic stability through developing a practical and consistent resource framework; boosting resource allocation to strategic priorities among sectors; improving the predictability to funding and policy in order for line ministries to plan early and to also help in sustaining programmes; and allowing increase autonomy for the line agencies with hard budget constraints for effective and efficient utilisation of funds (World Bank, 1998).

Revenue and spending aggregate are determined by ensuring fiscal discipline through MTEF. Appropriately, rational forecasts of the resource envelope need to be made by the government through estimation of concessional loans, external grant and domestic revenue. Implementing politically-endorsed deficit alongside financing strategy will help to determine aggregate expenditure ceiling. The major parts of revenue, expenditure, deficit and financing and fiscal target of aggregate over MTEF period are then stated and declared as nominal/real values or ratios respective to GDP. After that, distribution of the aggregate value of public spending must be allocated to the major spending groups. It is of vital important to institute allocation indicative of discretionary resources between development and recurrent expenditure. Budget credibility can be improved by dividing the aggregate expenditure ceiling into hard budget ceiling for each sector and spending agency over a

medium-term and this can also help to prevent a hand-to-mouth approach to budgeting (Kiringai & West, 2002).

### 2.3.3. The Comparison of Traditional Budget and the MTEF

For better clarity of the new budget system, it is important to compare the old budget approach which is the traditional or incremental method with that of the MTEF. The table below shows the comparative analysis of the two approaches in four main categories.

**Table 2.2: Comparison of Annual Budgeting and MTEF**

Features	Traditional Budget (at Ministry level)	MTEF(3-Year-Rolling Program at Sector level)
Aggregate fiscal discipline (i.e. To keep expenditure within the means).	Focused on short-term macroeconomic concerns (with international agencies providing the discipline in many countries).	Situates short-term macro-economic concerns within a medium-term macroeconomic and sector perspective. Involves building domestic macro-economic modelling capacity.
Link between policy, planning and budgeting(Reflecting the government's capacity and willingness to prioritise expenditure programmes)	Very weak because policy choices are made independent of resource realities. Thus, policy is not sustainable and spending patterns may not reflect the priorities articulated by government.	Policy-making tightly disciplined by resource realities. Thus, a much stronger link exists between policy-making, planning and budgeting. Spending reflects the stated priorities of government.
Performance and service delivery (Relating to operational performance of all resources both human and financial)	Incentives for results in terms of outputs and outcomes are generally low because emphasis is on input control. Little attention paid to the predictability of budget funding.	Emphasis is on the delivery of agreed outputs and outcomes with available resources. Incentives are structured to increase the demand for evidence of good performance (accountability of sector managers for results). Consequently, service delivery should improve.
Autonomy of managers	Generally low, because lack of discipline within the traditional budget framework is translated into detailed input controls.	Generally high because of greater discipline in setting and enforcing hard budget constraints and accountability tools that will give the managers the way to be more autonomous and provide them with the authority to determine how agreed goals and objectives can be attained.

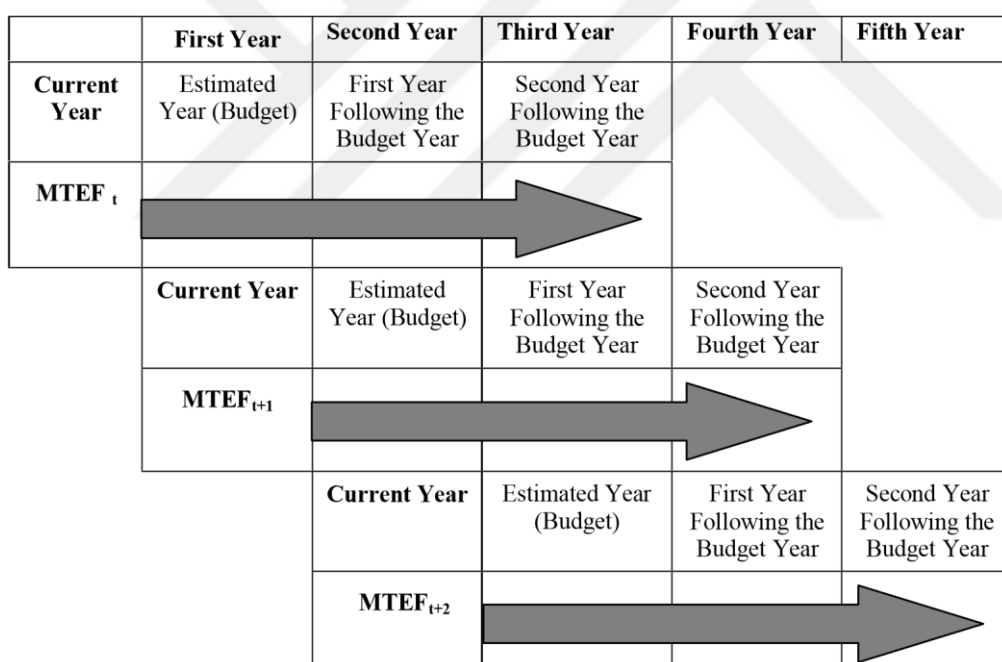
Source: World Bank & Korea Development Institute (2005).

### 2.3.4. The Process of MTEF

Generally, MTEF processes aim at connecting policy with resource allocation decisions in a medium-term framework in the reflection of public finance decisions and ultimately enhance policy decisions. In order to attain government's objectives, MTEF encompasses of structuring the decision making-processes which focus on the expenditure, policy and strengthening economic efficiency. It can be said that MTEF has to do with strategy in

resource in connection with the priorities of government and decisions (Dorotinsky, 2004). Despite all that, without the operations of vital government processes on which it lays on, MTEF cannot be attained. There is no any standard format or procedure describing the MTEF process. Important key issues affecting the operations of the MTEF approach in any circumstances must specifically be considered by each government (Kiringai & West, 2002). The process also determines whether MTEF will be a yearly exercise or it will remain valid for many years, set fixed or indicative ceilings for the first year and that of the subsequent ones. The process further determines whether it sets gross or net expenditure ceiling and embraces a more detailed approach that includes all sectors in government and public enterprises or will just cover central government operations. The chart below depicts a successive MTEF process where each MTEF prepared to cover the next three years.

**Chart 2.3: Successive MTEF Process**



Source: Yilmaz, (1999).

Public Expenditure Management Handbook (1998: 47-52) recognizes seven major phases of a detailed MTEF, each depends on the other through an integrated bottom-up and top-down strategic planning process, that notwithstanding, the fact that every country has adopted the MTEF reform, the process will depend on the institutional arrangement in each country.

Stage one: This is an important phase in attaining cumulative fiscal discipline based on modelling and macro-analysis. This step includes forecasting resource availability based on projections of internal revenues and economic growth through developing macroeconomic frameworks. Knowledge on what is economical is needed for reasonable decision making by making it crucial in linking economic projections to fiscal targets.

Stage two: An initial sectoral ceiling is developed at this stage where the available resources are allocated among sectors based on the government priorities. This includes finding out which activities need to be decreased, delayed until next year or to be cancelled entirely.

Stage three: This involves a number of negotiations among the ministry of finance and other sector ministries to review their output.

Stage four: A comprehensive plan of the expenditure framework is required at this stage which involves each ministry or spending agency to evaluate its requirement in the medium term based on policies and priorities of government. The ministries and spending agencies are grouped into sectors where they would compete for resources. Trade-offs within sectors are permitted so far as they are within the overall resources envelope. Reallocations within the sectors as well as intra-sector reallocations are also allowed based on projects priority for financing in the medium-term.

Stage five: This level of the MTEF demands the major government spending agencies to list their estimates based on what is affordable and the government's priority. The first year becomes the annual estimates while the two subsequent years are the indicative ceiling for the medium-term framework.

Stage six: At this phase, ministries submit their budget projections for review and to assess compliance with the agreed ceiling.

Stage seven: Ministry of Finance reviewed the already revised budget estimates and present it to Cabinet and Parliament for final approval.<sup>1</sup>

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<sup>1</sup> The Process of the MTEF was borrowed from World Bank (1998). Public Expenditure Management Handbook (1998:47-52), Washington, DC: World Bank.

## **2.4. Empirical Review of the MTEF**

Le Houerou & Taliercio (2002) analysed the success of MTEF in nine African countries and based their data on four most developed MTEFs in the region where there was evaluation of era without the framework as well as era with the framework. Its outcomes did not show any connections between the MTEF and a decrease in fiscal deficit. However, it indicated a limited support linked with MTEF's reallocation of resources to government priority projects. Established on simple comparison of means and by using the budget deficit index, the result did not show that, MTEF has a greater effect on budgetary predictability, lessen digression and few unreliable evidence. This then indicates a greater effect on civilians participation in the matters related to PEM due to MTEFs' propagation.

A review of multi-year budgeting practices in six developed countries was conducted in the year 2000 that tried to understand the multi-year budgeting techniques used as a potential application by developing and transitional countries. Subsequently, five lessons essential for developing and transitional economies were made which can be stated as follow: First, a multi-year dimension may be a relevant management and fiscal policy mechanisms for both transitional and developing countries; secondly, the step used should reflect each transitional and developing country's policy aims, administrative effectiveness and distinct budget institutions and traditions; the third lesson from the report was that, the development of the multi-year budget dimension should be a gradual procedure; forth involves using multi-year budget to incentivize the constructive inclusion of line ministries in the budget process; and finally multi-year budget process efficiency should critically be determined through a reliable and exactness of the medium-term budget estimates (Boex, Martinez & McNab, 2000).

Le Houerou & Taliercio (2002), in their initial results from comparative analysis of the design and impact of MTEF on public finance and economic management in nine African countries concluded that the MTEF alone cannot enhance public expenditure management especially the countries with weak budget execution and report. Essentially, their study suggested broader and detailed diagnosis of budget management system and procedures followed by the MTEF to guarantee relevant design of budget reforms. A fully developed MTEF could not be introduced at a go in countries with a weak capacity, as such they recommended a comprehensive arrangement in the public expenditure management reform programme and stage in the elements of the MTEF. Additionally,

for effectiveness in the process there should be assimilation of the MTEF with the budget process in the beginning with the MTEF ensuing year's estimates published as the component budget document. In reference to unique situations in each country, they proposed that, the reform was best administered by overlapping, jointly reinforcing organisation structure, where some should particularly be made to handle the MTEF with oversight responsibility by the Ministry of Finance. Finally, the study hammered on political incentivisation and ambition to embark on the MTEF.

Furthermore, Brumby (2008) carried out a research to investigate the impact of the MTEF on budgetary outcomes and his study grouped MTEFs into three types with the medium-term fiscal framework (MTFF) as a means of enhancing macroeconomic stability. The second type is the medium-term budgetary framework (MTBF) which is also responsible for setting budgetary ceilings within which resources are to be distributed in order to achieve allocation efficiency. The last type is the medium-term performance frameworks (MTPF) which focuses on inputs and outputs and most importantly impact on technical efficiency. He found that MTEFs improve fiscal stability with improved results as we move from an MTFF to a MTPF and they also improve allocation efficiency with greater results on an MTBF. Results on technical efficiency measured as health spending' impact on the output of the health sector, whether life expectancy or infant mortality was mixed. Using life expectancy as a measure of service delivery, he found a positive effect of the MTPF but no effect from the introduction of other frameworks.

Oxford Policy Management (2000) reviewed achievement of the MTEF in Malawi, Rwanda and Nepal to find out if MTEF leads to positive effect in the sphere of effective utilization of resources and fiscal discipline. They revealed that the impact was mixed in these countries and also MTEF is not adequate answer to poor budgetary results in developing countries. Additionally, they suggested that a key to successful MTEF and budget is by establishing and defining achievable and consistency in sectoral and national policies. MTEF was first fully carried out in the 1999 budget and evidence from Ghana's case does not look different from other countries on the continent. MTEF fanatics concluded on the review by saying "so far what was achieved was extraordinary". Achievement under the implementation of MTEF in the first year budget in a short span was astonishing and has not been witnessed in the history of Africa. The obvious information channelled out was that, the process has been remarkable, however favourable



outcome was not guaranteed. The last scepticism proved right because after three years of implementation, a foreign development institute findings concluded that “By 2002, the message was one of relative failure in the MTEF” (Short, 2003).

IMF also corroborated this analysis in 2004 and said there were some flaws in the MTEF as it ended up being a form filling activity and was not in a firm position to be used as a tool for review of government priorities, decision making and rational allocation of resources. The failure can be attributed to the following: Instead of being a fundamental reform within the ministry and owned it, MTEF appeared to have been implemented as a “project”. The MTEF could not be executed in that short notice because its objective was to develop an output-oriented budget and apart from that, it was outright unfit for a developing country. The number of activities which were more than two thousand five hundred cost centres in total which were being reported by each line ministry was extremely broad as well as the information required from them. The annual budget yielded an impracticable results on the expenditure side due to the deficiency in macroeconomic programming and external shocks. Predictability of revenue was quite accurate but in larger extent due to higher inflation. The credibility of the MTEF for line ministries was badly affected and the annual budget rapidly overtaken due to the fact that the country was facing large trade adjustment (Potter, 2000).

In his works, Makau (2009), indicated that one of the biggest challenges of the MTEF in Kenya was the issue of ownership of the reform. MTEF shifts authority to MDAs from the Ministry of Finance as the movement change from input to output. Also, there is a problem of the reforms being introduced due to external influence from development partners which then raise a concern as to who make decisions and the continuity of the changes. Kenya managed their MTEF using an overlapping set of organisational structure like many other countries but these structures have its own strengths and flaws. Legality is another issue, as MTEF is not normally captured in the constitution of the country. However, the budget in general is having a legal backing within the Constitution. Countries like Kenya who do not have Budget Act have some problem with regards to interpretation. Additionally, a perfect MTEF is preceded by a detailed analysis of budget process and management systems. MTEF may not yield any positive result without a full diagnosis of the budget management system and process from the public expenditure review. Makau (2009) suggested that MTEF may have limited effects if there is absent of reform from civil service, governance,

budget execution, local government, monitoring and evaluation because MTEF need complement from such reforms. Essential for the MTEF process is sufficient ability by the Finance Ministries to guide the process as the implementation is done by the line ministries but most developing countries lack these factors. Lastly, unless there are additional flows for handling contingent liabilities or good benchmark for prioritisation, MTEF will not lead to additional resources and the process may be ineffective.

In his works, Schiavo-Campo (2008), argues that MTEF has not resulted in meaningful impact due to some of the following major reasons; inadequate technical capacity, lack of domestic and standardised practices and poor budgetary institutions. This was as a result of the budget reform being imposed on most unwilling countries. He ended that, although MTEF is important and effective fiscal policy tool, however, it cannot solve the flaws in policy congruity and political discipline. Moreover, if implement badly, can cause massive waste, deception and frustration. Schiavo-Campo (2009), again stated that, the positive effect of the MTEF falls behind the negative effect. He further pointed out that, less local control, serious pressure on limited capacity and distraction from fundamental budgeting problems are some of the negative effects from MTEF implementation. The conclusions back the initial results by IMF (1999), which suggested that strict conditions need to be satisfied for MTEF benefits to be realised. Establishment of the MTEF in the budgetary process has not enhanced budget preparation and outcome in the less developed countries. There is a proof showing that for decade after the MTEF, budget behaviour is same, no progress in macroeconomic balances, inefficient gain in public spending and no connection to larger budgetary forecast (Brumby, 2008).

In the examination of experiences with MTEF among some chosen Eastern and Southern Africa Countries, Oyugi (2008) revealed that, MTEF was useful to Tanzania, Botswana, Namibia, Kenya and Zambia in the area of broadened the degree of consultation around the budget and enhancement in pro-poor budgetary allocation. Also, less political commitment, poor predictability, inadequate capacity, weak enforcement of budget ceiling weakens the implementation of the MTEF in these countries. Over or under spending emanating from ineffectiveness of line ministries to comply with their spending limits were basic features of these countries. In the works of ODI (2005), it was found that, effectiveness of the MTEF was mostly depended on initial conditions. Macroeconomic and fiscal stabilisation, strong stakeholder inclusiveness and simultaneous development of an

integrated financial management system were beneficial in attaining progress with the MTEF in the case of Tanzania. The World Bank is still regarding MTEF as an essential component of good public expenditure management despite the obvious obstacles.

## **2.5. Budgetary System of Ghana**

To the large extent, financial resources constitute life blood of government and public administration especially in times and places of fiscal scarcity and austerity. But human and material resources are equally important (Haruna & Vyas-Doorgapersad, 2016).

According to Orthodox perspective on public administration and policy, the combination of financial, human and material resources are necessary in accomplishing public goals and objectives. Governments and public administration have confronted to the hard reality that there are never enough resources to meet public needs and demand. Based on this logic, often scholars conceptualise public budgeting broadly as means of making decision about how to acquire, allocate, use, and account for the public resources (Nice, 2002 & Lewis Hildreth, 2013). Such a broad conceptualisation affirms that budgets are not just an issue of arithmetic but in many ways gone through the “root of prosperity of individuals, the relations of class and the strength of kingdom” (Hyde, 1992). As a result, a public budget performs several functions such as the aggregating of interests, setting priorities, managing the economy, promoting efficiency and effectiveness, and ensuring accountability. In that regard, budget is not just a statement but a plan of collective action that is inextricably linked to the human condition. This is more so in the context of developing societies such as Africa that are still struggling to find the most appropriate approach to harnessing and allocating their scarce resources towards improving the quality of life (Haruna & Vyas-Doorgapersad, 2016).

The budget procedures are standardised by a set of laws that makes it imperative for government to conform to this set of rules and procedure in making and implementing national budgets. The basic principle for governance of a country is preserved in a national constitution which lays down laws and regulations for enforcement. The legal framework for developing and sanctioning of the national budget are provided by the constitution of the country. However, it does not give comprehensive procedures at every phase of the budget process though it identifies the institutions responsible for it. Revenues and expenditure are regulated by a set of financial laws which helps in the protection of public resources and encourages transparency and accountability of the

budget system. The law may particularly require that additional appropriations are approved by parliament and also determines the Ministers and other officer’s duties and roles. The law also institutes conventional accounting standard practices and may define explicit offences, fines and measures for recovery of losses (Draman, 2010).

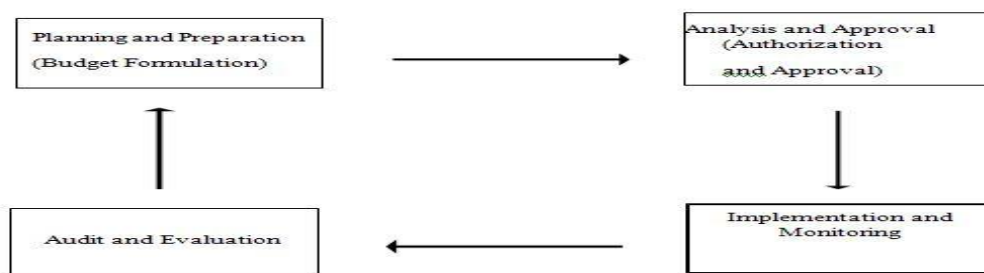
**2.5.1. Laws that justify the Budget Process in Ghana**

Ghana’s budget is govern by three main legal documents which include the 1992 Constitution specifically articles 174-182, the Financial Administration Act (FAA, 2003) and the Financial Administration Regulations (FAR, 2004). To Complement the general provisions, other laws are put into consideration such as the Bank of Ghana Law 2002 (Act 612), The Audit Service Act, 2000 (Act 584) and tax laws (IRS, CEPs & VAT Acts). Also, essential to the budget process is the Standing Orders of Parliament (Order no. 138-150) in accordance with legislative approval. Ministry of Finance and Economic Planning has oversight responsibility of all MDAs through quarterly and monthly expenditure ceilings, and departments that exceed their ceilings are sanctioned. The Ministry of finance receives expenditure returns from all MDAs through its Expenditure Monitoring Units which then recommends the cause of action on it. The accomplishment of such responsibilities has legal support to safeguard the excessive obligations of the Ministry of Finance (Ministry of Finance).

**2.5.2. Ghana’s Budget Cycle**

Ghana has four main budgetary processes which include the Planning and Preparation (i.e. Budget Formulation); Analysis and Approval (i.e. Authorization and Approval); Implementation and Monitoring; and auditing and Evaluation. At any point in time, more than one of these processes takes place concurrently.

**Chart 2.4: The Process in Ghana’s Budget Cycle**



Source: Ministry of Finance of Ghana

### **2.5.2.1. Budget Preparation**

Budget is prepared by the Ministry of Finance and Economic Planning (MoFEP) on behalf of the President taking into consideration MTEF budgeting approach, based on the first year budget, a 3 year rolling budget is then prepared. MoFEP starts the Budget preparation by advertising in the print media requesting Civil Society Organisations and interest groups to submit memoranda on matters deemed important to be included in the year's budget. Revision of the macroeconomic policies is then done by the MoFEP taking into account the provisions of the National Development Plan (NDP), Cabinet/Executive directives and other policy papers of Government and international agreements. After that, MoFEP conducts meetings with the MDAs to discuss cross-sectoral matters and to examine closely activities in order to avoid duplication of programmes. By April Changes in national policy guidelines, key sectors issues and sectoral ceiling are made based on the revised macro-economic structure. A circular letter captioned "Guidelines for the Preparation of the fiscal year Budget" is being issued to MDAs by MoFEP. The circular: i) summarises the main point of Government's programmes for the financial year; ii) Reviews previous and recent progress of key sectors of the economy and trends in macroeconomic indicators; iii) outlines the timetables for the budget briefing each ministry to meet the statutory due dates of the fiscal cycle, importantly for the Cabinet and Parliament; iv) the MDAs should provide projected estimates for the indicative ceilings as well as the macroeconomic targets for the sector expenditures.

The preparation and submission of expenditures estimates for the ensuing year are based on these guidelines. The budget committees for the MDAs prepare an estimate to evaluate the price of activities and projects taking into account the ceilings after receiving the budget circular. The budget hearing is divided into two; the Policy and Technical hearings are planned by MoFEP in the month of June and September. The Policy hearing which is the first is based on "broad sectoral issues and policies" of the budget. The policy hearing examines extensive strategic directions and provides an opportunity to review duplication in objectives of the MDAs. During the hearing, MDAs are invited to defend their budgets in relation to economic growth. The technical hearing which is second aims at adjusting MDAs objectives and expenditure estimates with government policies. Estimates are set within the allocated ceiling and any supplementary funding must go through cabinet (Ministry of Finance of Ghana).

A zero sector budget is drafted by MoFEP after agreeing on the ceiling. It then drafts the first budget for the cabinet to consider and make recommendations based on the MDAs past expenditures and absorptive capacities. The approved budget is then presented to the MDAs who then finalise their budget based on the final one. All the sector budgets are then put together into one document by MoFEP which becomes Government budget proposal for the fiscal year. It finally goes through the cabinet for approval and then presented for legislative approval through parliament. The Central Government Budget documents to the Legislature is normally accompanied by the following elements; fiscal policy objectives for the medium term, macroeconomic assumptions, budget priorities, broad annual financial plan including the overall revenues and expenditures, off -budget expenditures, comprehensive table of tax expenditures (exemptions, deductions and credits), medium-term perspective on total revenue and expenditure based on the form of the MTEF, precise defined appropriations to be voted on by Parliament, linkage of appropriations administrative units (e.g. ministry, agency), text of legislation for policies proposed in the budget (Draman, 2010).

#### **2.5.2.2. Legislative Approval and Analysis**

The final budget is presented to parliament at least one month before the end of the financial year which is normally in November by the Minister of Finance on the President's behalf and then he request parliament for formal approval. After the budget presentation, the debate to be made on the budget is adjourned for not less than three days. Parliament then first debate on the whole budget and it is then forwarded to the committee level for further debate and approval based on select committees such as the health, agriculture, finance, and education. MDAs budget estimates are perused at the committee level in line with expenditures, performance and ceilings. At this phase of the approval process, the MDAs technical officials are invited by the various committees to defend their proposed budget and how it will contribute to overall national target. It is the responsibility for the sub-committees within the ministry of finance to debate on the issues pertaining macroeconomic policies, resource mobilisation and make recommendations to parliament for approval. For the approval of the appropriation bill to be made, parliament must first vote on the whole expenditure and then to the specific appropriations. The budget is given a legal support for implementation by passing the appropriation bill into an act. A month is

given to the parliament for passing the bill and interim measures are voted on the event when the budget is not approved within the stipulated time (Ministry of Finance).

### **2.5.2.3. Budget Implementation and Monitoring**

Immediately the appropriation laws come into effect, MDAs are requested to submit work, cash and procurement plans respectively to the MoFEP for the release of funds. General warrants are issued for salary-related expenditure (items 1) and specific warrants for all services and investment expenditures (items 3 and 4 respectively). After the request is made, monthly funds are released to MDAs for their operations and activities and this is recorded and published by the Controller and Accountant General's Department within three months before the end of the financial year. Government may cut spending even after the passage of the appropriation act by parliament in case that it's unable to collect the forecasted revenue stipulated in the budget. A number of factors such as unexpected changes in economic forecast which may cause decrease revenue or increase in expenditure and can trigger the preparation of a supplementary budget. Quarterly expenditure report is then prepared by MDAs and it includes; the actual expenditures are compared against projected expenditures with regards to both Government and donor's funds, discrepancies between planned and actual expenditures, reasons for the differences and recommended solutions to any constraints identified.

Assessment is done in the first few months by the government to find out whether target revenue and foreign inflows can be attained. If it's not achievable, a revision may be required in the expenditure estimates. In this case, preference is given to the statutory expenditures which consist of District Assembly Common Fund, interest and principal payments on loans, pensions and gratuity payments to Social Security and National Insurance Trust and, more recently, the Road and the Education Trust Funds (Draman, 2010).

### **2.5.2.4. Audit and Evaluation**

The Auditor General at this stage is authorised to audit the budget implementation and give report to the Parliament. The Auditor General carries out financial and performance audit by providing checks and balances on information to make sure that they are in conformity with law pertaining to the use of public funds. The final report is published six month after the end of the fiscal year. The audit report is then scrutinized by parliament through the Public Account Committee and whether it deems fit or not. This committee invites

Directors of MDAs or individuals with questionable transactions in the report to a live broadcast to answer questions with regards to the audit report. Final findings and recommendations are sent by the committee to the whole house of Parliament for further actions on any inconsistencies found by the auditors (Ministry of Finance).

## **2.6. MTEF in Ghana**

### **2.6.1. Background of Ghana's MTEF**

MTEF was adopted as part of the budgeting process in Ghana since the year 1999. This was part of the country's wider public sector reforms that were making headway through the pressure from donors. Notably among the donors were the World Bank and IMF to be specific. Contributions made by the nation's budget to achieve a sustainable development and realise the Ghana's vision 2020 objectives can be achieved through the MTEF.

Prior to the MTEF, the government had made numerous attempt to reform the budgetary process to assess the impact of expenditures in annual PERs, but only little success was achieved. All the earlier reforms that were initiated and tried by the government in the budgetary process failed to address the relevant matters of integrating planning, policy, and budgeting. The financial management reform agenda was initiated in 1995 due to the flaws found in the budgetary system through the PER process. Despite the fact that the numerous reform measures that were undertaken tried to remedy the problems that complicate the budgetary process, policy, planning and budget mainly remained independent to each other.

According to Oduro (2003), by 1995 the government had realised that in spite of all the reform measures in the budgetary process, the budget fail to deliver in terms of economic development and wealth creation. The scarce resources available were apportioned in a very little amount over too many projects and therefore were not linked to the policy priorities. There had also been some basic central deficiencies identified by the government in its PEM system which is the traditional incremental system of budgeting. Lack of budget ownership; improper accounting; inefficacious audit; poor budgetary structure; lack of staunch, precise and prompt information for policy decision making and ineffectual of the state expenditure monitoring and control were the other weaknesses detected. The budgetary process has also given the stakeholders little or no opportunity to participate in the process but was fully patronised by the ministry of finance.



The various economic surveys that were conducted in the middle to late 1990s reviewed the existing weaknesses that resulted from the unsystematic or incremental budgeting process that failed to link planning and budgeting. The PER emphasised on the need for urgent and comprehensive public sector reform. The reform specifically pointed out the achievement of efficiency and effective use of public resources. In general speaking, it was argued that the MTEF was introduced as the result of the pressure from the IMF and World Bank but the public expenditure reform outlined the justification for the adoption of the MTEF budgetary process. These are due to the weaknesses in the link between the annual budgets, national policies, public investment programmes it identified. The MTEF was also aimed at rectifying a number of deficiencies within the financial system for instance failure to attain the appropriate resource predictability in the implementation process.

According to the PER (1993, 1994) report, trends in the public expenditure in Ghana were lacking consistency with the twin objectives of attaining a sustainable economic growth as well as reducing poverty. The traditional approach to budgeting was not only seen as ineffective but also inefficient. It neither led to cost containment nor improving quality. These predicaments have to be addressed effectively in order to attain the stated objectives of poverty reduction as well as wealth creation that has resulted to a sudden balance change in development.

Per the report, it was concluded that the directions in the public expenditure were basically inconsistency in order to realise agreed objective of attaining a greater as well as sustaining the economic growth and reducing the poverty level. It further revealed that the public expenditure framework was inappropriate and inefficient therefore leading to a continuous failure to deliver government's services. The composition of all these factors resulted in the implementation of the MTEF as a budgetary process in Ghana to address these imbalances and to bring the widening gap between policy, planning, and budgeting. The MTEF consist of the medium-term financial framework of the government expenditure plan and must match with the total resource envelope and normally takes three years period. This modern reform was put into use at the initial two and half years from its formation. Sectoral strategies with regard to government priority for the current and future costs can be developed within the resource envelopes constraints. It was hoped that the MTEF would oversee the productive and efficient use of government resources, thereby shaping the public expenditure's Gross Domestic Product. A long-term planning needs to

be in place as specify in the Poverty Reduction Strategy Paper (PRSP) in order to provide a smooth monetary discipline and improve the connection between the government's priorities. Holmes & Evans (2003), concluded that the desired estimate with what is affordable can help to achieve common goal by providing connections between poverty reduction target and the priorities within the government annual budget through the MTEF. Integration of policy, planning, and budgeting within a medium term perspective is a critical characteristic of the MTEF. MTEF normally comprises a top-down resource envelopes which is in accordance with the stability in the macro-economic as well as the policy priorities at large. It also involves the bottom-up estimates of the ongoing and medium-term cost of the existing activities and programmes which improves decision making process and harmonise these costs to the available resources (Holmes & Evans, 2003). CABRI (2007) stated that, MTEF is a full government's broadest expenditure which connects national priorities with the distribution of expenditure within a fiscal framework. "MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term cost existing policy and, ultimately, matching these with available resources within the context of the annual budget". The up-down resources envelope involves a macro-economic framework which specifies fiscal targets as well as the estimation of revenues and expenditures. Subsequently the MTEF was evolved to curb some of the problems in dealing with planning restrictions within the old yearly budgeting process. The basic assumption was that the MTEF would provide a starting point for adequate planning. It was also intended to ensure that public budget is used as a roadmap for achieving government's key strategic objectives. The basic brain behind the concept of the MTEF was to promote the best possible resource allocation out of the limited resource envelope. In order to actualise the concept fully in Ghana, the MTEF framework comprised of two integral parts. The first part is the estimation of the overall total resource envelope for the entire public sector. This is done through a macroeconomic model that makes a forward projection within the three year period of the government's revenue envelope in the Ghanaian framework context while the second part deals with the mechanism use in allocating available resources together with government policy priorities. However, it is acknowledged that the least priority programme is cut or reduced to line up with the projected revenue envelope whenever the costs exceed the available resources.

The MTEF in Ghana was aimed at achieving four main objectives. The objectives maybe stated as follows:

- i) It aimed at linking policy making to planning and budgeting. This would improve the efficiency in the resource allocation and at the same time conform to the strategic priorities both between and within sectors.
- ii) Maintaining a sustainable fiscal discipline through the institution of hard budget constraints. This will improve the macro-economic impact on government through the establishment of a stable and pragmatic resource envelope.
- iii) Promoting efficiency in service delivery by increasing incentives for the most effective ministry. This can only be achieved by assigning a certain level of funds in order to give them some kind of independent and responsibility in their budget. Predictable fund level would help the ministries to plan ahead in implementing their projects and programmes.
- iv) Stimulating economic growth, speeding up poverty reduction and creating of wealth. MTEF was therefore intended in achieving outcomes at the lowest cost, hence value for money through the encouragement of better use of public resources.

The aforementioned objectives can only be attained through some basic amendment in the budget implementation which requires that an additional strategic means of assigning available resources and has a connection with the ministries' goals stressing on the better result and attainment of various sectors objectives. This required a complete examination of the budgetary process and reorganisation of its structure to give an opportunity to other stakeholders to take a major role in the whole budgetary approach, beginning with the sector meetings and planning for the following year's budget. This important re-structuring would always have a shift in the thinking of the key players involved in the budgetary process. This will also give the line ministries with the biggest power to direct resources to the prioritised programmes to give them some level of authority in an efficient utilisation of the limited state resources.

The government recognised the existing environment in the PFM and adopted the MTEF as the budgetary process in 1999/2000 fiscal year as part of the broader public sector reforms that were gaining ground and becoming more popular in the country and around the region at large. The approach of the MTEF seems promising in amending the disconnections among

various policies i.e. planning, budgeting and overall national policy. Sectors participate in a bottom-up reviews starting with scrutinising the priorities of the sectors as well as the activities so as to achieve a better intra-sectoral allocations. Once the first year's estimate is established, the MTEF acts as a rolling budget because the budget estimate for first year is used to predict the subsequent year budget.

## **2.6.2. The MTEF Process in Ghana**

The procedure in Ghana's budget preparation comprises of four different stages. The stages are: i) the top-down procedures which basically include the MoF and Cabinet involves the preparation and finalising, in general, the macro-fiscal resources framework and deciding on the inter-MDAs and sectors ceilings; ii) the bottom-up process is where the MDAs are expected to prepare their budget projections within the sectors and MDAs; iii) drafted budget estimated would then be finalised by the both Minister of Finance and MDAs in this process; iv) this final stage deals with the deliberation and approval of the final budget by the parliament and cabinet. It is expressed that the process of the MTEF budget is an up-down process in literature because the estimates of the total available resources is solely prepared by the MoF and the Cabinet then decides on how these resources are to be distributed among the five broad sectors we have in Ghana based on the priorities of government. This process can also be defined as a bottom-up due to the fact that the strategic plan estimates are prepared by the MDAs which is mandatory on the MDAs in order to attain their agreed sectoral goals. The up-down process of allotting available resources to the MDAs is controlled through reviewing policy procedures which require the MDAs to review their strategic plan and policies in order to be conformed to the total resource envelope available. This is followed by policy hearings where MDAs are updated with the sectoral ceilings through the Budget Guidelines which specify the overall total resource available for the subsequent three years including resources from donors.

### **2.6.2.1. Top- Down Process (Inter-Sectoral Setting / MDA Ceilings)**

#### **2.6.2.2. The Macroeconomic Framework**

Determination of oriented resource envelope which is done by the MoF is the initial stage in the development of the yearly budget and medium term. At this stage, the external resources as well as the domestic ones that are based on the medium-term macroeconomic framework are covered. Initially, there was an expectation that, the estimation of the total

resource envelope would be based on the macroeconomic model taking into consideration the relevant variables such as inflation rates, money supply, GDP growth, inflation rates, growth etc. The revenue envelope's estimation, however, was based on the incremental projections and it is done by the Ministry of Finance. The estimation of MDA expenditure indicative ceilings was systematically weakened due to narrow interpretation of the macro-framework. The MDAs actual allocations to the expenditure ceilings have been inadequate due to the fact that, the macro-framework was consistently overestimated in the nation's total resource envelope and this has undermined the credibility of the MTEF process. The absence of an explicit model to estimate the macro-economic framework was a key reason for this development.

Inaccuracies in forecasting the resource envelope have also worsened the situation due to failure in planning for external shocks. Ghana's macro-economic indicators particularly, took a turn for the worse in 1999 as the economy suffered from the adverse shocks of rising crude oil prices, increase in exchange rate and declining prices of her major commodity exports. Delayance on the part of the donor's payments which accounted to one-third of government's overall discretionary expenditure further compounded to the grave condition. These trends resulted in slower than projected increases in both expenditure and revenue.

Currently, the government after widening and deepening its MTEF has gone further applying a fundamental and suitable macro-economic related model with respect to the programming method of finance. With issue of projecting resources during budgeting preparation, non-tax revenues, as well as domestic taxes are decided upon for the next three year period. This is mutually done by a unit in the MoF called Budget and Policy Analysis and Research with other revenue agencies such as the tax policy and non-tax revenue unit all under MoF. Also in terms of the external resource projections, the MoF also works with the External Resources Mobilization and Debt Management unit to execute such objective.

### **2.6.2.3. Setting MDA Ceilings**

MDAs ceilings setting are normally centred on total resources to be accessible as well as the framework related to macro-fiscal while the MTEF indicative ceilings for the coming 3 year period are agreed on by the MoF. The MDAs together with IGFs, DP and government

as fund providers provide indicative ceilings. A ceiling meant for discretionary expenditure by the government is determined differently, purposely for four spending items. It is basically specified for an item. The very first ceiling is set in such a way that every MDAs is in good position. Adjustment is made on events such as once-off and an attempt to include policies such as GPRS and effect of new ones is done. That notwithstanding, Cabinet's suggestions on medium-term and annual priorities are not incorporated during the indicative ceilings. Indicative ceiling design is such that cabinet has the authority to apportion extra fund after sittings on the technical budget for discretionary expenditure made by government on certain expenditure (Ministry of Finance of Ghana).

#### **2.6.2.4. Bottom-up Process (Setting Intra-Sectoral/Intra-MDA Budgetary Allocations)**

Before the MTEF was carried out, sector ministries' estimates were just a mere extensions of activities/programmes that do not have any relation with the modern policy issue under the nation's development framework. The MDAs, however, use strategic planning approach in determining their mission, objectives, outputs and activities under the MTEF approach to budgeting. These general objectives, goals as well as the objectives must conform to national goals and objectives as specified by the NDPC.

The bottom-up process of budget preparation requires that the MDAs prepare their budget appropriation proposal which start with the strategic planning process. In the GPRSII, contained the general national strategic plan which aimed at providing the foundations to MDAs strategic objectives and thereby its medium-term expenditure policies. Most MDAs such as agriculture, roads and transport, education and health are having a fixed period of 5-years for estimating their budget rather than the usual 3 year rolling. This outlines the MDAs strategic policy as well as sector objectives in accordance with the GPRSII, describing the monitoring and evaluation framework which include policy targets and indicators. There is comparatively inadequate information and analysis on medium term budgetary suggestions of policies, overestimated implementation costs of an execute policies and related funding variations depending on the sector in question. Policy implementation's schedules and option can be prioritised to suit with the comprehensive resource framework through effective MTEF. This pragmatic process in the budgetary planning and prioritisation can help in removing the financing variations (ERPFI, 2009). As part of their sectoral strategic planning process MDAs carry out sector review to revise the progresses on the policy implementation and also reprioritised their budget for the

ensuing years giving particular attention to the immediate budget year. The reviews aimed at focusing on revising the development in sector policies and implementation of the GPRSII.

Practically, comprehensive programmes together with their costs begun at the initial preparation stages of the MTEF and since then there has been some significant changes with the costing. The submission of the MDAs initial estimates to the MoF which comes before the revision of the budget estimates can be marginally higher than the indicative ceilings provided in the budget guidelines. The MDAs then defend their budgets proposals during the hearing process and carried out the process of prioritising their estimates to match the changes in their entire frameworks. Even though the aim was to tackle this process in the bottom-up approach as it is in the case of the original estimates, but the time constraints and pressure mounted on the process signify that in the actual situation the prioritisation occur mostly by the staff at the main headquarters of the MDAs. This does not give a clear picture on how effectiveness the information for the revised estimates are and the details of the re-prioritisation with the subordinates at this time.

Institutionally, the Budget Committee of the MDAs which includes the top management from planning and budget unit as well as the main MDAs sub-sectoral departments was established basically to provide cross-MDA input into budgetary decisions. However, these tasks do not work effective and lack transparency in terms of the outcomes across the MDAs during the process of budget decisions.

#### **2.6.2.5. Consultative Process and Interaction between Top-Down and Bottom-Up Processes**

The first budget hearing between the top- down and bottom-up process is the policy hearing. After the Budget Guidelines have been disseminated, the MDAs, NDPC and MoF appear at the policy hearing and inter-sectoral meetings which are intended to deliberate on the updated policies and resource framework and the basic annual budget requirements. Currently, the interactive process has been replaced by what is called the Policy Hearing which is now participated by the Chief Directors from the MDAs. At the hearings, an overview of the macro-fiscal framework is given by the MoF with regard to the next year's budget. The MDAs present their medium-term strategic policies and goals after an overview of progress against their sector monitoring and evaluation have been provided

together with their revised budget for the current year as well as the projected budget for the following year. In a contrary, there is a minimum level of priority given with respect to the discussion of the cost-effective of past spending policies or how the budgets agreed upon will be utilised to achieve the stated policy objectives, that is to say, a reasonable deliberation regarding prioritising the activities of the government within the expected total resource envelope. The discussions are rather focused largely on the MDAs item based spending needs.

The second hearing process which is called the technical budget hearings however, aimed at giving an opportunity to the MDAs to defend their budget submissions in order to provide reasons for receiving extra budgetary resources from the Cabinet. The first budget submission made by the MDAs is normally a little bit higher than the initial ceilings with the hope of receiving extra resources allocated after technical hearings and discussions with the Cabinet. Present at the hearings are the officials of the MDA management, officials from the Budget Division in the MoF as well as the NDPC senior management. The MoF after the hearings and discussions of Cabinet then prepares a report based on the hearings which focuses mostly on the reviewed MDAs budget allocation.

#### **2.6.2.6. Parliamentary Scrutiny and Cabinet Approval**

Towards the end of the budget formulation process, there are four main stages in the approval procedure of the budget. This normally occurs immediately after the drafted estimates are submitted to the Cabinet. These stages are i) Cabinet discusses, if possible makes some amendments and approves the final aggregate of the MDAs estimates presented by the MoF; ii) the budget statement is then read by the Ministry of Finance to the parliament; iii) at this step, the finance committee of the parliament assesses the budget estimates and receive the comprehensive volumes of the MDAs. Detailed report is given to the House by the finance committee on the estimates which basically focuses on the estimates as well as the policies in the budget; and iv) this final stage is where the Parliament approves the Appropriations into bill.

#### **2.7. Research Gap**

It seems to be no literature with respect to what the effect of the MTEF has had on the Ghana's budgetary process since its adoption. It is not clear whether the MTEF has succeeded in linking planning, policy, and budgeting. Furthermore, the predictability of the



resource envelope too is unsure due to the current situations which the country has found itself. The research is focused on to what extent the MTEF has attained these moves. Due to the scanty of literature on whether or not the MTEF has increased the resource predictability, this study's focus was to fill this gap.



## CHAPTER 3

### RESEARCH METHODOLOGY

This chapter provides a description of the various methods and procedures used in collecting the data for the study. The research design, target population, sample and sampling techniques, data collection instrument and procedures and the techniques used analysing the data are covered in this chapter.

#### **3.1. Research Design**

The study adapted descriptive survey approach in collecting data where questionnaire was administered to the target population. The descriptive survey method was the appropriate and according to Kombo & Tromp (2006), it describes the state of activities as they exist. The method ensured complete description of a situation, making sure that there was minimum bias in the collection of data and finding out the what, where and how of a phenomenon. It also enabled the researcher to collect data which were factual and involved analysis, comparison and classification.

#### **3.2. Target Population**

The population of the study entails the whole number of events which the researcher intends to study. The population for this study encompasses all the 5 sectors of government that draw funds directly from the national coffers. The table below is the summary of the sectors and the number of ministries it composes of.

All the government ministries are regarded as the target population of the study and because the researcher did not contact all the ministries, the researcher selected one ministry each from the 5 broad sectors that we have in Ghana and generalisation was made by the researcher on the sample selected. The target population was selected since it

constituted the whole spectrum of the Government and therefore represents the budgetary process right from the planning phase where sectors are very crucial. For the purpose of the MTEF these five sectors were developed under which specific MDAs are classified and because the MTEF process is based on sector the resource envelope is being shared among the sectors where competing needs are financed on the priority basis.

**Table 3.1: List of sectors and the number of ministries**

Sector	Ministries
Economic	12
Infrastructure	4
Public Administration	14
Social	8
Public safety	7
Total number of unit ministries	45

Number of as at 2016

### 3.3. Sampling Size and Technique

For the purpose of this study which entails wider range of environmental factors, random sampling was adopted to select the sample size. This is due to the fact that the number of ministries is known and it is presumed that all the ministries are equal and therefore if anyone is chosen, it represents the rest. The researcher therefore took the advantages of simplicity in data collection and minimised the cost and time in conducting the research work. The simple random sampling is a technique adopted by the researcher which gives every segment of the population an equal chance of being selected as the sample to the study means reaching a valid conclusion about the entire population. The questionnaire was therefore sent to a department under the Ministry of Finance which coordinates all the 5 broad sectors of the government for distribution to the various ministries.

### 3.4. Data Collection Instrument

The data collection instruments were mainly questionnaires which is based on Likert (1932) type of scale (summated rating) and interviews. The questionnaires were distributed based on the 5 broad sectors and their classified ministries under them. The questionnaire was structured in four sections. The first section sought to gather the respondents' general understanding of the MTEF, the second section sought to compare incremental budgeting with the MTEF, third section dealt with the flexibility, comprehensiveness, and

transparency of resources under the MTEF budgetary process, while the forth section sought the information on the significance of the indicative ceilings of the MTEF subsequent years.

### **3.5. Data Collection Procedure**

The focus of the study was the government budgetary process and therefore some of the respondents were uncomfortable to provide all the required information due to the secrecy oath and bureaucracy in government operations. Anonymity of the respondents was preserved and respondents were at all liberty not to disclose their names. Respondents were assured that the study was purely for academic purposes and could not be used against anybody. The researcher respected the opinion of the respondents and were given adequate time to fill the questionnaire.

### **3.6. Data Analysis Techniques**

Data collected were edited, evaluated and measured against the research to ensure their completeness, consistency, accuracy and relevance. Responses were classified into categories per the research questions to facilitate analysis. This is to enable data gathered to be presented into tables, graphs, percentages, and charts for qualitative explanations and analysis.

## CHAPTER 4

### DATA PRESENTATIONS AND ANALYSIS

This chapter deals with the analysis and findings of the study as outlined in the research methods. The results were presented on the effect of MTEF as a reform initiative on the budgetary process in Ghana. The chapter is divided into four subsections which includes the general understanding of the MTEF; the comparison of incremental budgeting with the MTEF; the flexibility, comprehensiveness, and transparency of resources under the MTEF budgetary process; and the significance of the indicative ceilings of the MTEF subsequent years.

#### 4.1. Analysis of Data

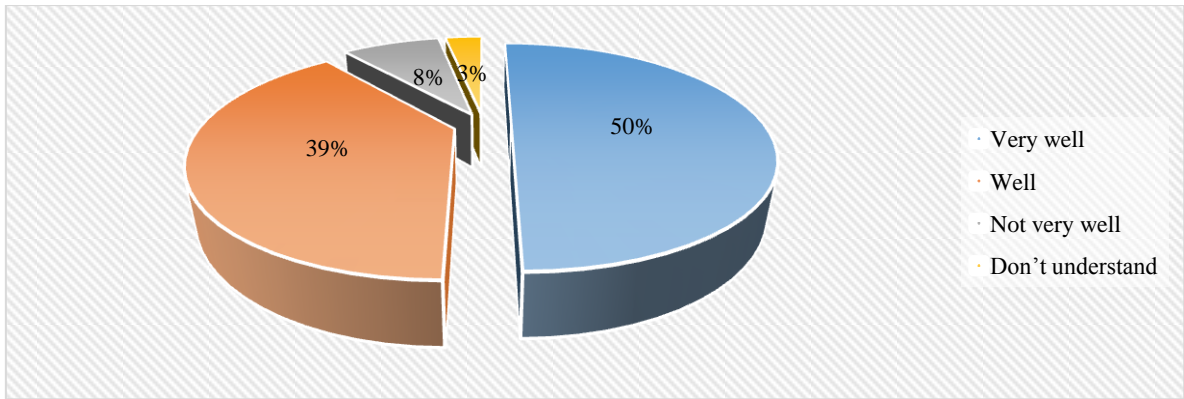
In all, the researcher administered 45 questionnaires to the respondents and were requested to give response to the questions in term of opinions and views to the researcher. A significant number of responses was acquired from the completed questionnaires and was submitted to the researcher. It is important to note that out of 45 questionnaires administered 42 were received by the researcher indicating that 93.33% of the questionnaires were returned. However, 2 of them were turned down due to the fact that the respondents could not answer them as anticipated and therefore the remaining 40 were deemed quite satisfactory for the study.

#### 4.2. The General Understanding of the MTEF

Figure 4.1 shows that about half of the total respondents understand the MTEF process very well, 39% have a good understanding, 8% do not understand the process very well while 3% seem not to understand the at all.

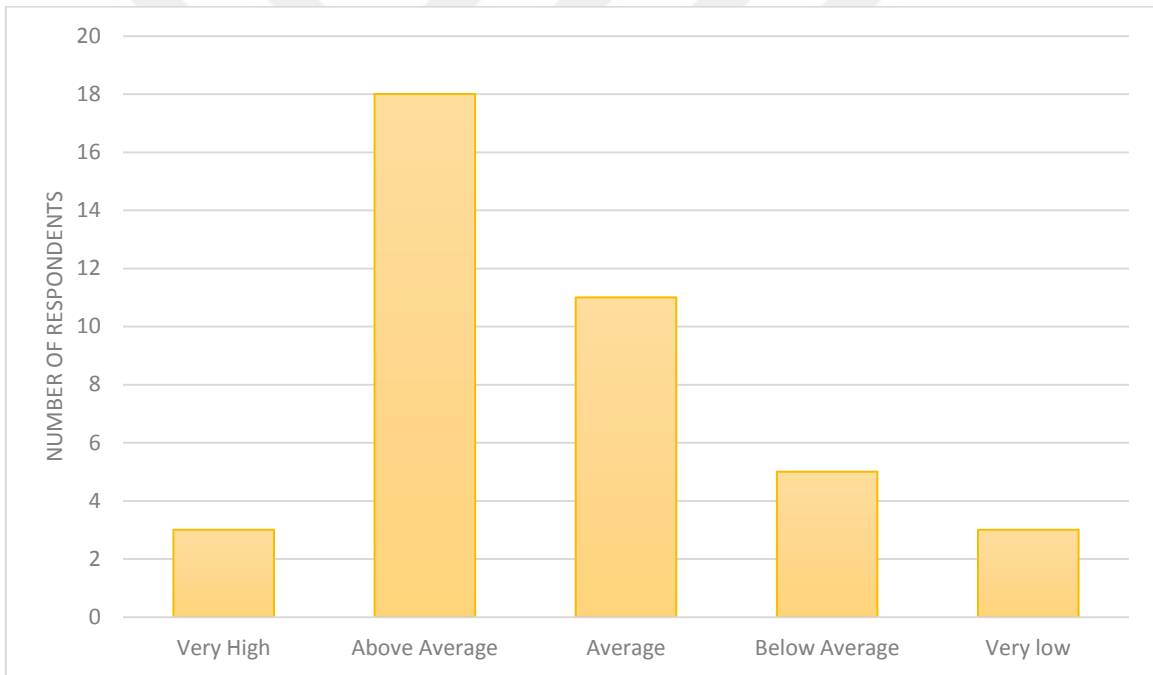
The Figure 4.1 depicts that majority of the respondents have fair understanding of the MTEF process while the rest have little or no understanding of the process.

**Fig 4.1: The MTEF Budgetary Process**



#### 4.2.1. The MTEF Ranking

**Figure 4.2: Ranking of the MTEF**



As indicated from Fig 4.2 above, 18 respondents representing 45% of the respondents ranked MTEF budgetary process Above Average, 11 respondents representing 27.5% were average while 5 respondents which constitute 12.5% ranked below average.

#### 4.3. Comparing Incremental Budgeting with the MTEF

This stage examined the views given by the respondents in comparing the MTEF with the Incremental budget. A score is assigned to each view indicated by the respondents. Those who ticked or chose 1 and 2 were taken to hold a negative view as they agreed with the

statement, 3 as being indifferent and 4 and 5 holding a positive view as they disagree with the statement regarding MTEF and Incremental budgeting. Table 4.2 below represent the findings.

**Table 4.2: Comparison between Incremental and MTEF Budgeting Process**

		<b>Agreed (%)</b>	<b>Indifferent (%)</b>	<b>Disagreed (%)</b>
1	MTEF has led to fiscal discipline as opposed to incremental where there was no 'hard budget constraints'	12 (30)	10 (25)	18 (45)
2	Incremental budgeting was prone to manipulation and was a fertile ground for malpractice with high corruption risk.	2 (5)	22 (55)	16 (40)
3	MTEF has improved the estimation of macro-economic aggregates (revenue, expenditure, budget deficit (net external and internal financing) including forward year's budget estimates	18 (45)	14 (35)	8 (20)
4	Incremental budget was easier to implement and consumed less time as compared to MTEF	28(70)	8 (20)	4 (10)
5	MTEF has improved adherence to key budget timelines as set out in the budget calendar	26 (65)	12 (30)	2 (5)
6	Incremental budgeting process favoured some 'politically correct' areas	2 (5)	20 (50)	18 (45)
7	MTEF has given greater financial autonomy to ministries.	8 (20)	22 (55)	10 (25)
8	Incremental budgeting was exclusive to the treasury and ministry of finance officials with little input from line ministries	24 (60)	12 (30)	4 (10)

The findings from Table 4.2 indicate that 30% agreed that the MTEF has led to fiscal discipline, 25% were indifferent, and 45% were in disagreement.

With regards to incremental budget being prone to manipulation and ground for corruption, 5% were in agreement while 55% were indifferent and 40% were in disagreement with the statement. 45% agreed that the MTEF has improved the estimation of macro-economic aggregates, 35% were indifferent, and 20% disagreed.

70% agreed with the statement that Incremental budget was easier to implement and consumed less time as compared to the MTEF, 10% disagreed while 20% were indifferent.

#### **4.4. MTEF Flexibility, Comprehensiveness and Transparency of Resources**

This stage of the analysis tried to find out the level of flexibility, comprehensiveness, and transparency of resources under the MTEF budgetary process. Respondents were requested to score in their own view using a scale of 1- 5, the level of flexibility, comprehensiveness, and transparency of the MTEF budgetary process. The respondents who scored 1-3 were taken to have a positive view of the process, those who scored 4 were uncertain whether the MTEF budgetary process is all inclusive, while those who scoring 5 were taken to have a negative opinion regarding the process.

With regard to the MTEF flexibility, the researcher sought to know how MTEF has improved the flexibility of revenue and expenditure projections, the macroeconomic flexibility, the adherence to set budget flexibility, and to rate the level of the MTEF flexibility in Ghana. The following analysis indicates the opinions or the responses given by the respondents.

##### **4.4.1.1. The Extent at which MTEF has improved the Flexibility of Expenditure and Revenue Projections**

Here, it is required from the respondents to show the degree at which MTEF has improved the flexibility of expenditure and revenue projections. For the better understanding of the analysis of the findings under the expenditure and revenues projections a table is shown below which illustrate the revenue and expenditure projections in the budgetary process from both the before and after the MTEF. The flexibility of the expenditure and revenue projections has seen improvement after the introduction of the MTEF in the budgetary process as compared with the pre-MTEF. This is because there is a consistent in projecting both the total revenue and expenditure and includes grants from donors in the medium term budgetary process. Below table illustrate the projections of both total revenues and expenditure for the before and after MTEF era.

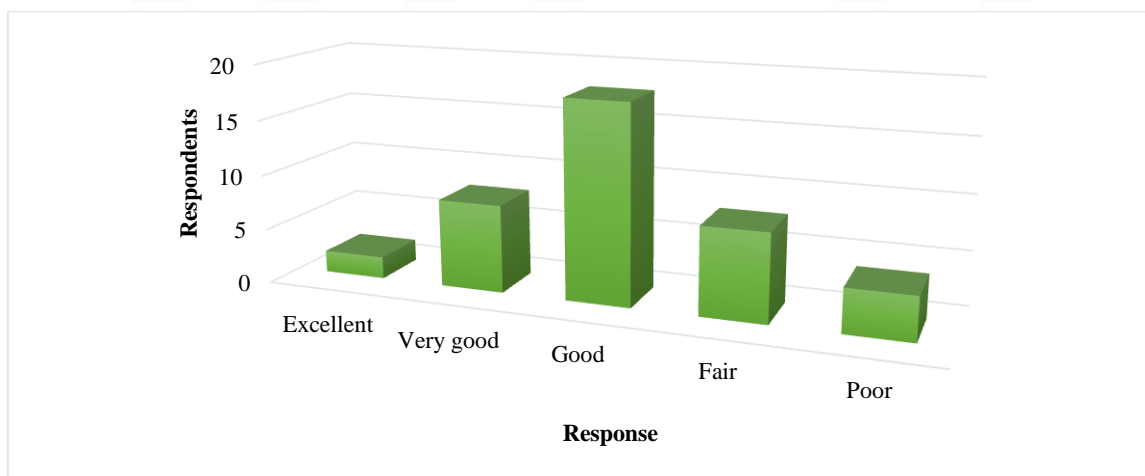


Table 4.3 The Comparison between Pre-MTEF and Pro- MTEF Era

	Pre-MTEF		Post-MTEF					
	1998 Budget (in billions of cedi)		2009 Budget (in millions of cedi)		2010 Budget (in millions of cedi)		2011 Budget ( in millions of cedi)	
	Budget Estimates	Projected Outturn	Budget Estimates Ghc	Projected Outturn Ghc	Budget Estimates Ghc	Projected Outturn Ghc	Budget Estimates Ghc	Projected Outturn Ghc
Total Revenue& Grant	3821.0	3338.5	10,045.9	8,659.3	9,628.5	8,828.4	11,967.4	12,825.0
Total expenditure	5005.0	4383.2	10045.9	8659.3	11573.6	11342.7	14397.4	15565.5

The findings of extent at which MTEF has improved revenue and expenditure projections are illustrated in the figure below.

**Figure 4.3: The Flexibility of Expenditure and Revenue Projections under the MTEF.**

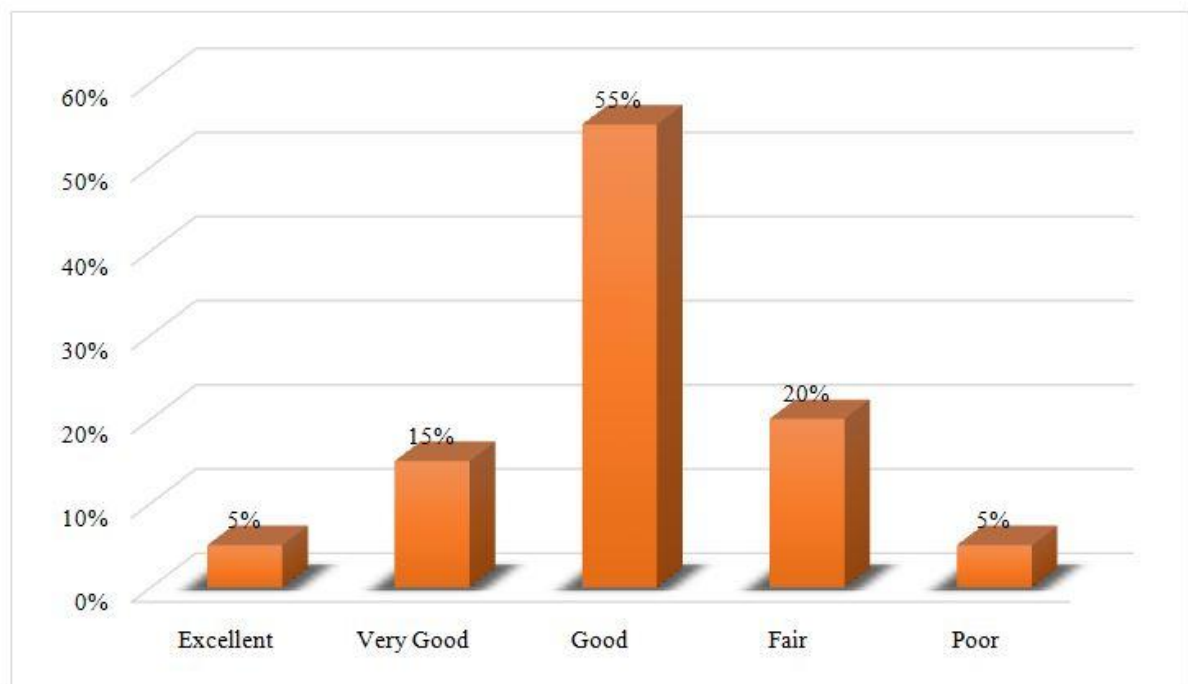


The above findings depict that, most of the respondents agreed that the MTEF has improved the flexibility of expenditure and revenue projections. This can be seen from Figure 4.3 where 70% of the respondents were of the positive view of the statement, 20% were uncertain while 10% had a negative view about the flexibility of the process.

#### 4.4.1.2. Extent at which MTEF has improved in the Adherence to set Budget Flexibility

Here, the researcher demanded from the respondents to show the degree at which MTEF has improved the flexibility in the adherence to set budget. Figure 4.4 illustrates the findings from the respondents.

**Figure 4.4: Flexibility in the adherence to set budget under the MTEF**

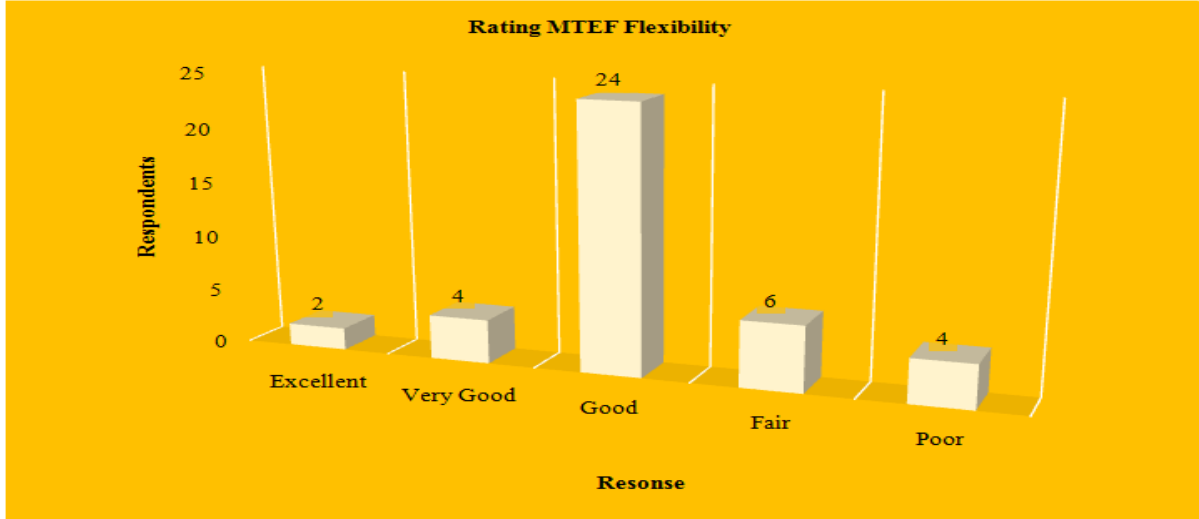


It is indicated from Figure 4.4 that 5% scored excellent regarding the extent at which the MTEF has improved in the adherence to set budget flexibility, 15% scored very good, 55% recorded good, 20% recorded fair while 5% recorded poor indicating a negative opinion of the statement. The same score was given by the respondents with regard to how the MTEF has enhanced macroeconomic flexibility in Ghana. This implies that the MTEF has improved the flexibility of expenditure and revenue projections in the country's budget.

#### 4.4.2. Rating MTEF Flexibility

MTEF Flexibility is rated high by a majority of the respondents as it shown in Figure 4.5

**Figure 4.5: Rating MTEF Flexibility**

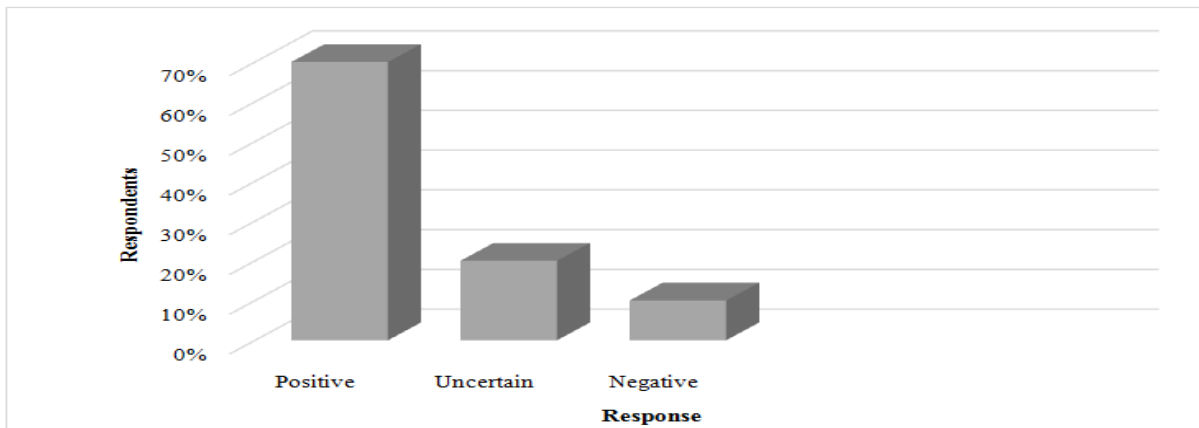


From Figure 4.5, it reveals that 24 of the respondents rated the MTEF flexibility as good representing 60% while 6 of the respondents rated it as fair and 4 of them rated it as poor which represent 15 and 10 percent respectively.

#### 4.4.3. Comprehensiveness and Transparency of Resources under the MTEF

Here the respondents were required to indicate the degree of comprehensiveness of the process and how the adoption of the MTEF increased budgetary transparency in the budgetary process.

**Figure 4.6: Illustration of Comprehensive and Transparency of the MTEF**



From the Figure 4.6, it is reveal that 70% of the respondents were positive that not only the MTEF is comprehensive but transparent, 20% were uncertain while 10% had a negative opinion about the transparency and comprehensive of the process.

#### 4.4.4. Level of Public Participation in the Context of the MTEF

The respondents were required to indicate the level of public participation in the annual budgetary cycle in the context of the MTEF. The following findings in Figure 4.7 show the responses given by the respondents with this regard.

**Figure 4.7: The Level of Public Participation of the MTEF**

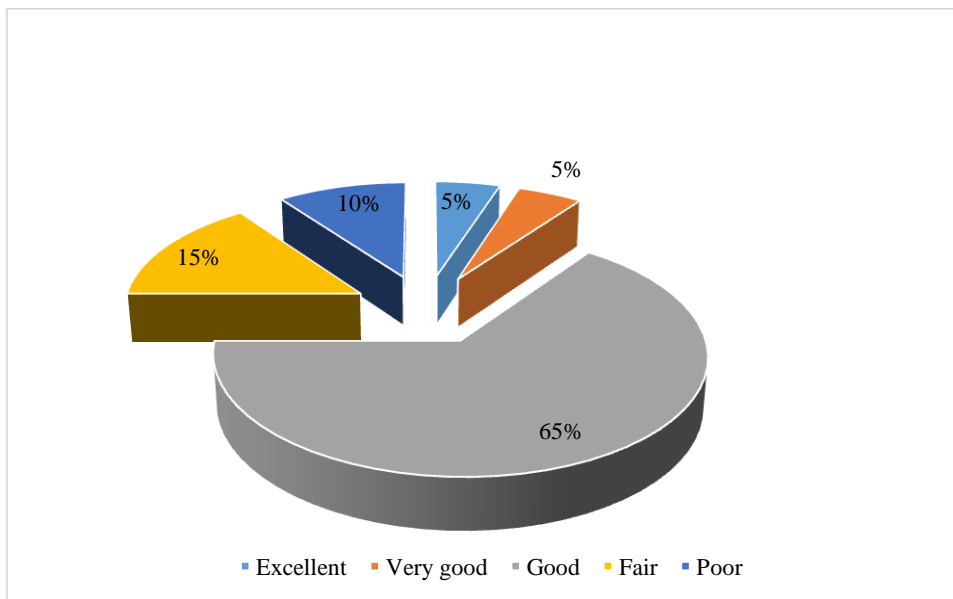


Figure 4.7. reveals that 65% of the respondents indicate the public participation in the annual budgetary cycle in the context of the MTEF has been good, 15% indicate it to be fair while 10% were of the view that there has been no or poor public participation of the public.

#### 4.4.5. Linking Policy- Planning- Budgeting

The respondents were requested to indicate how the MTEF is linked with policy, planning, and budgeting. The respondents who scored 1, 2, and 3 were taken to be in agreement with the statement that MTEF has linked policy, planning, and budgeting in the multi-year perspective. Those who scored 4 were uncertain, and those for 5 were not in agreement with the assertion.

**Figure 4.8: Linking Policy-Planning-Budgeting**

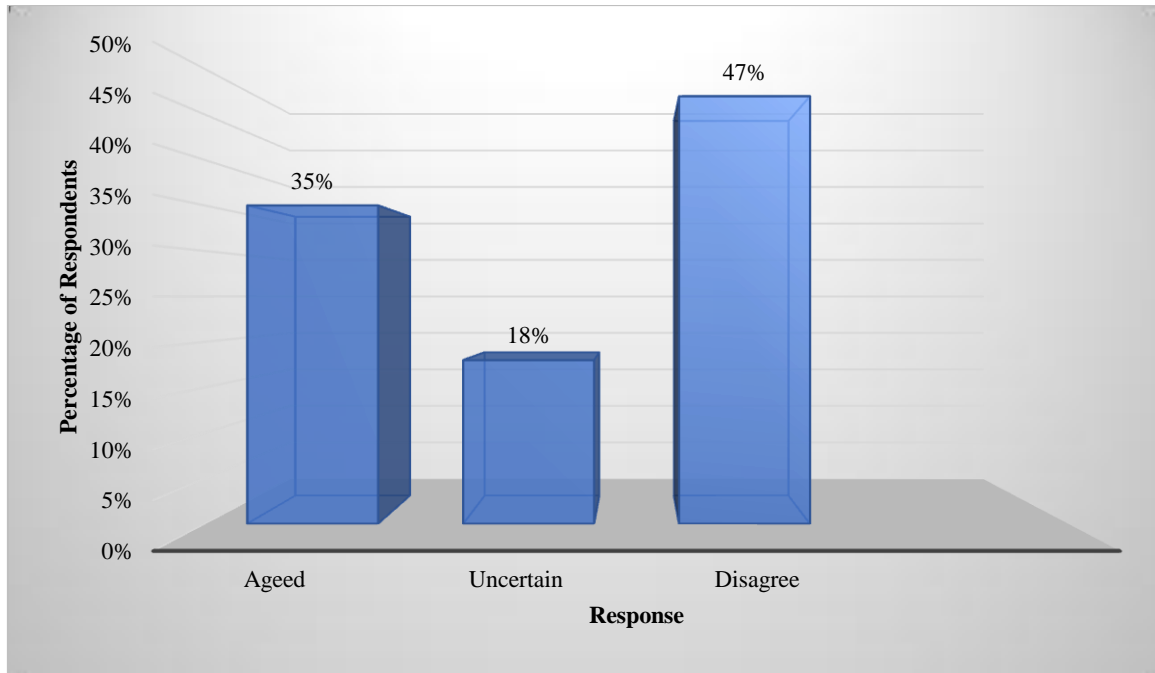


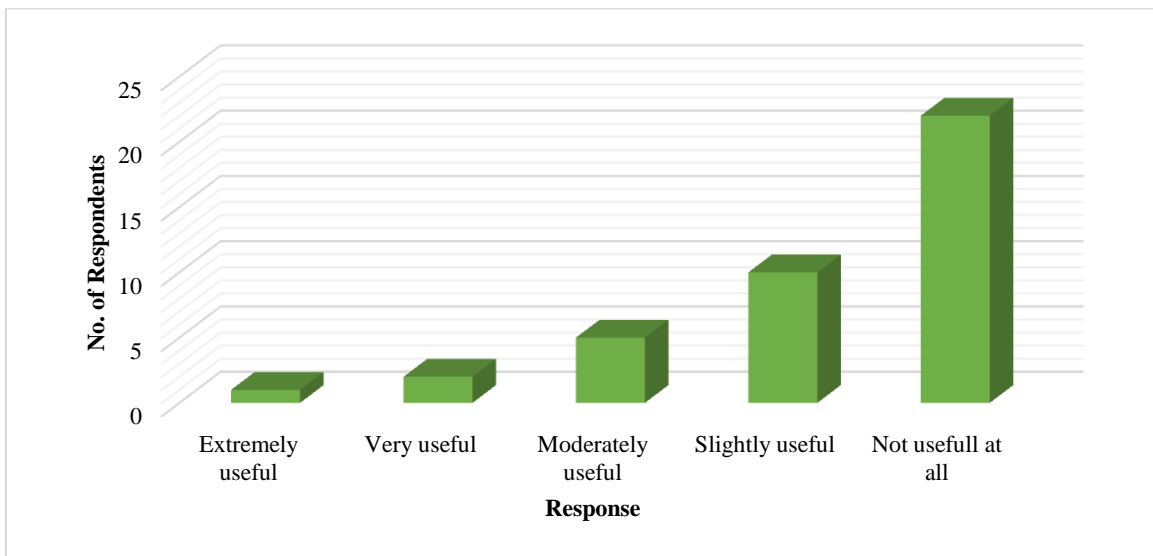
Figure 4.8 discloses that 35% agreed with the assertion that MTEF has linked policy, planning, and budgeting; 18% were uncertain while 47% were with the opinion that MTEF has not link policy, planning, and budgeting.

#### **4.5. The Indicative Ceilings of the MTEF Subsequent Years**

One of the paramount attribute of the MTEF budgetary process is the subsequent ceiling that projects both the estimates of revenue and expenditure in 3 year horizon with the first year becoming the annual budget while the subsequent years are forward estimates. Respondents were requested to indicate the usefulness of the indicative subsequent year ceilings. Vast number from the respondents pointed out that the indicative ceilings are not useful at all and are overlooked or shrug off when projecting estimates for the subsequent years.

Figure 4.9 shows that 55% are of the view that the subsequent year ceilings are not useful, 3% think that the subsequent years are useful while 25% are of the view that they are slightly useful.

**Figure 4.9. The Illustration of the Usefulness of the Indicative MTEF Subsequent Year Ceilings**

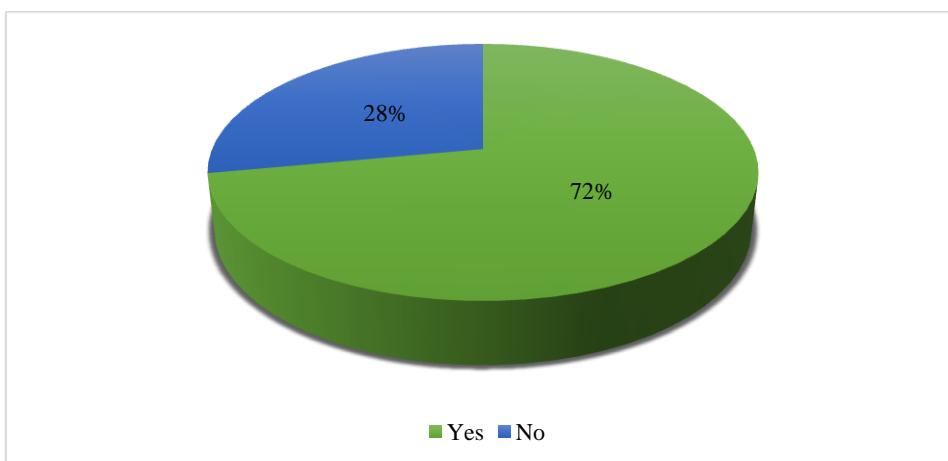


**4.5.1. The Use of the Subsequent Year Indicative Ceiling in Projection of Resource.**

The respondents were requested to indicate whether they use the subsequent year indicative ceilings to project their resource requirement in the following financial year.

72% were in the agreement that they use the subsequent year indicative ceiling in the projection of resource in the following financial year and 28% were in disagreement with the assertion. The findings are illustrated in the Figure 4.10 below.

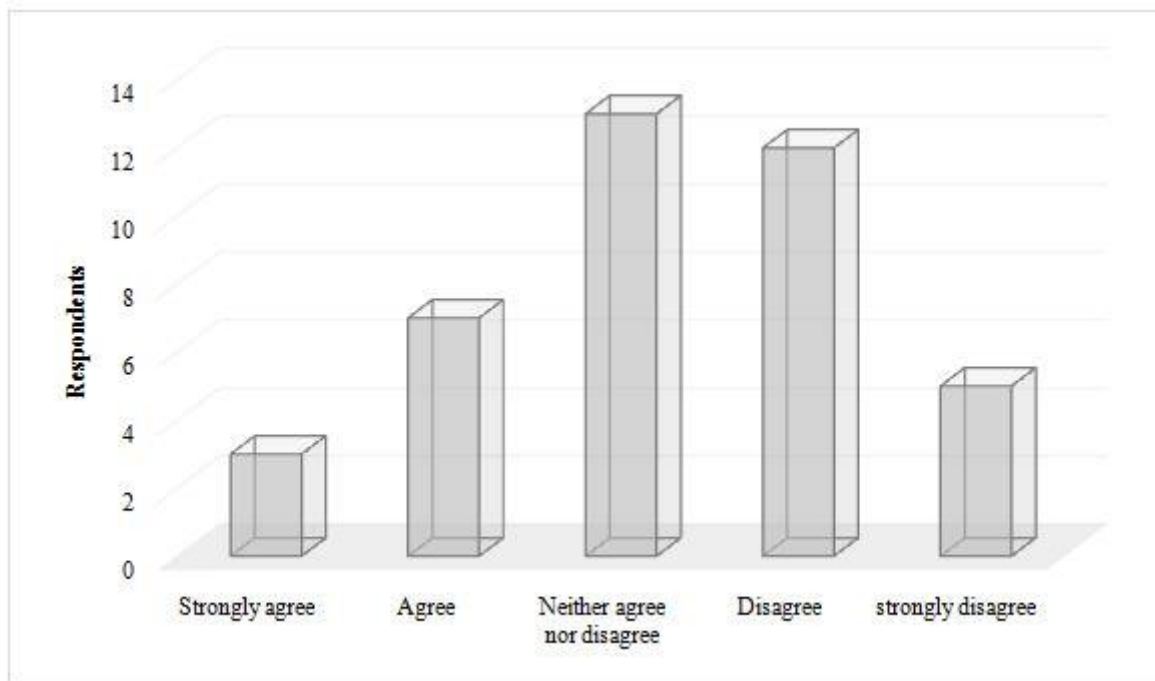
**Figure 4.10: Uses of Subsequent Year Indicative Ceiling in Resource Projection.**



#### 4.5.2. Rolling Over of Indicative Subsequent Year Ceilings

The respondents were asked to indicate if the indicative subsequent year ceilings should roll over and become the annual estimates, hence the complete cycle of the MTEF budgetary process. The findings are illustrated below.

**Figure 4.11: Rolling Over of Indicative Subsequent Year Ceilings**

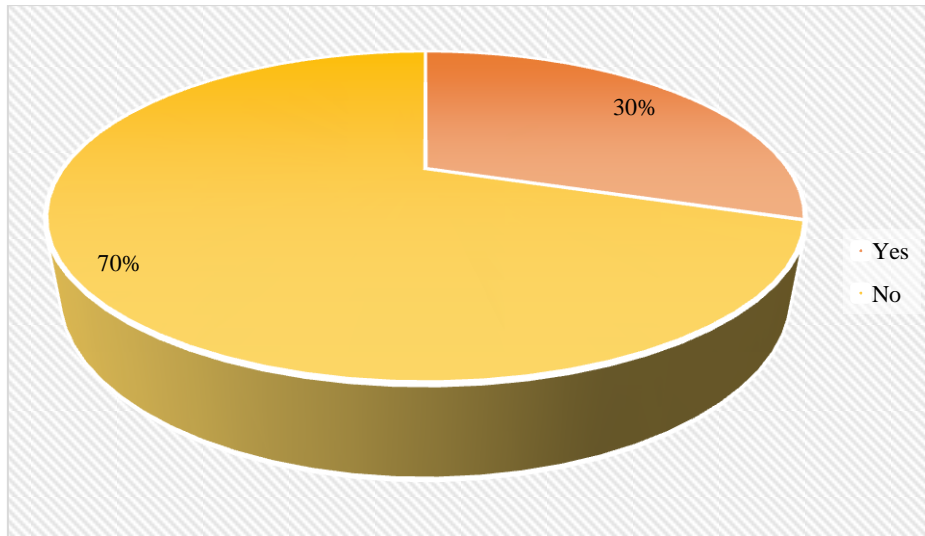


From the figure 4.11, the findings indicated that 7 of the respondents representing 25% were in agreement that the indicative subsequent year ceilings should be rolled over and become the annual estimates therefore the complete cycle of the MTEF budgetary process, 13 of the respondents were unsure i.e. 32.5%, while 12 of the respondents were in the disagreement of the assertion that the indicative subsequent year ceilings should roll over and become the annual estimates. This also represents 30% of the total respondents.

#### 4.5.3. Sector Working Group Sharing of Resources

The respondents were required to indicate whether the entire resource envelope are shared out at the sector level or there are any consideration done behind the scenes.

**Figure 4.12: Sector Working Group Sharing of Resources**



From Figure 4.12, it is indicate that 70% of the respondents were of the opinion that there are behind the scenes considerations where some ministries get resources outside the sector working groups while only 30% thought that the entire resources envelope is share out at the sector working groups.



## **CHAPTER 5**

### **SUMMARY, CONCLUSION, RECOMMENDATIONS, LIMITATIONS, AND FURTHER RESEARCH**

This section compacts with the summary of the study and the findings which draw conclusions, limitations and the necessary recommendations of the study.

#### **5.1. Summary**

The study was undertaken to find out the effect of Medium- term Expenditure Framework on budget process since its adoption in Ghana.

The results of 40 questionnaires received from the respondents were analysed. The first section of the study dwelt on the general principle of the MTEF with the view of establishing the respondents understanding of the MTEF budgetary process. Again the research attempted to find out the opinion of respondents with regard to flexibility, comprehensiveness, and the transparency of the MTEF process. Most of the respondents gave a positive view that the MTEF was introduced to address the shortfalls in the resource predictability and the lack of transparency in the budget process. Furthermore, the study again sought to establish from the respondents own point of view whether or not has the MTEF linked policy, planning, and budgeting which is the foundation principle of the MTEF but a substantial number were of those who believe little has been achieved in linking policy, planning, and budgeting.

Finally, the study sought to know from the respondents' perception regarding the subsequent year indicative ceilings which is one of the most critical aspects of the MTEF and therefore needs critical attention and judgement.

## 5.2. Conclusion

First and foremost, from the study, it is obvious that majority of the respondents have the general understanding of the principles of the MTEF and are comfortable with the budget process. In spite of that it is important to note that quite a small percentage (11%) of the respondents do not understand the process. The process is also ranked above average by the majority of the respondents.

Secondly, majority of the respondents agree that the MTEF has improved adherence to key budget timelines as set out in the budget calendar. The study concludes that MTEF has linked annual budget processes with agreed government priorities and the budget ceilings are developed on the basis of revenue projections. However, it is obvious that majority of the respondents disagree that MTEF has led to fiscal discipline while 25% of the respondents are not sure whether or not MTEF has led to fiscal discipline in the country. This is due to the current fiscal crisis which has sharply slowed the growth of the country.

Thirdly, majority of the respondents gave their responses in favour of the flexibility of MTEF process. This is because 24 of the respondents rated the MTEF flexibility as good representing 60% from the findings while only 10% of the respondents rated it as poor indicating that there is little or no flexibility in the process.

The study concluded that MTEF has improved the flexibility of expenditure and revenue projections. The study further concluded that MTEF ensures flexibility of expenditure and that it is linked to the revenue projections thereby minimising budget deficit. Additionally, MTEF is not only comprehensive but transparent as well. The study also concluded that, MTEF has increased predictability of funds for commitment of expenditures as compared to other processes that had been attempted in the previous reform initiative. It is also noted that 70% of the respondents agreed that MTEF has increased predictability of resources. The inclusion of public participation through public hearing has increased the involvement and transparency of the budgetary process and opened to other stakeholders.

Fourthly, the foundation of the MTEF process is intended to link policy, planning, and budgeting which are crucial to national document. Respondents are of the view that MTEF has not achieved the objective of linking policy, planning, and budgeting. 47% of the respondents hold the view that no gainful change has been made in that regard, 35% agree

that indeed MTEF has tried to link policy, planning, and budgeting while only 18% are unsure of the statement.

Lastly, the study concluded that, the sector working groups which are an essential part of the MTEF together with the subsequent year indicative ceilings are of no important or use at all. 22 of the respondents are of the opinion that the indicative of the MTEF subsequent year ceilings are not useful. Again, 25% of the respondents are in agreement that the indicative subsequent year ceilings should roll over and become the annual estimates, hence the complete cycle of the MTEF budgetary process while about 45% are in disagreement of the assertion that the indicative subsequent year ceilings should roll over and become the annual estimates. Additionally, 70% of the respondents are having the perception that there are resources which are share out at the treasury outside the sector working groups, by means of that making the MTEF process insufficient for equity distribution of resources.

### **5.3. Recommendations**

The government should re-evaluate the MTEF process and address the obvious deficiencies identified in the study while particular interest should be on the indicative ceilings of the MDAs. The indicative ceilings should be reliable since it is one of critical aspect of MTEF. It is indicated from the study that there is a lack of dependable ceilings in the budget guidelines to assist and direct the MDAs in terms of preparing their budget estimates and this has led to a sufficiently great difference amid the final MTEF ceilings in both the itemised spending as well as among the MDAs. Furthermore, the MDAs have failed to abide by the spending limit on their ceilings in the preparation of their estimate as stipulated by the budgetary procedure of the MTEF.

secondly, links between policy, planning, the annual budget and the MTEF framework should be strengthen because the analysis shows that a considerable number of the respondents are in disagreement in the statement that MTEF has linked policy, planning, and budgeting and to also ensure that programmes and projects are implemented as planned and do not stall or incur excessive unplanned costs due to poor costing.

Third, government should improve the transparency and consistency in budget preparation to ensure that budget guidelines are user friendly, accurate, timely, and available when

needed, specifically on relevant websites and offices and rolling out the IFMIS to all operational areas while improving its reliability.

Last but not the least, the government should translate the numerous policy documents which is accompanied with the MTEF budgetary process into action rather than being just a mere paper works. This could be only attainable by observing the hard budget constraint principle of MTEF where funding is on government priorities of projects and other commitments.

#### **5.4. Limitations**

First and foremost, the respondents in this study comprised of governments officials who are still bound by official secrecy Act. This invariably meant that some of the responses were critically examined and might not necessarily reflect the real situation on the ground. This was one of the major limitations to the study since there was no way to verify the information provided. To overpower some of these limitations, the researcher had the opportunity to convince and assured the respondents that, the study was merely for academic reason and could not be used for indicting or intimidating any official. This really helped to calm the nerves and ensured that the data collected was as accurate as possible. This therefore meant that the study was not in any way affected by the secrecy oath and the findings represent the behaviour of the respondents towards the MTEF budgetary process. The researcher further assured the respondents of their anonymity and this made them to be at ease. The other limitation has to do with time as well as the methodology of the study. This is because a survey like this should be formulated with a close attentiveness and caution so as to permit the data to be accurate and absolute but due to the time factor, the Likert- type scale with a basic and straightforward questions were deployed which restrict the responses of the respondents.

#### **5.5. Further Research**

The researcher recommends further research on the MTEF resource allocation and the sector groups. This is due to the fact that this study found these two aspects of the MTEF budgetary process as the most needing.

The researcher also sees the need to conduct further investigation in relation to linking policy formulation, planning and budgeting an area where respondents believe still has deficiency.

Last but not the least, researcher also recommends further research on the public sector hearings because majority of the respondents felt that this was a public relations exercise and their opinions are not included in the budget.



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APPENDIX A

**QUESTIONNAIRE**

The following questionnaire aims at collecting information and data for use by the researcher to facilitate research work. Your kind participation will go a long way in providing useful information required to complete this research. The information provided will be treated in utmost confidence.

**SECTION A: BACKGROUND INFORMATION**

Please circle or tick the most appropriate response according to you in respect to the following items

1. Name of the Ministry / Department/ Agency (MDA)

.....

2. Your name (optional) .....

3. Are you involved in the budgetary process? If yes how long

- i. Three years and below
- ii. Five years and below
- iii. Above five years

4. When was the MTEF introduced in your MDA?.....

5. What does MTEF aim at? .....

6. According to your view, to what extent is MTEF is implemented?

- i. Fully implemented
- ii. Partially implemented.

7. How well do you understand the MTEF?

- i. Very well
- ii. Well
- iii. Not very well
- iv. Don't understand

8. How would you rank MTEF as compared to previous processes?

- i. Very high
- ii. Above average
- iii. Average
- iv. below average
- v. Very low

9. Do you agree that MTEF has led to fiscal discipline?

Strongly agreed

Agree

Neither agree nor disagree

Disagree

Strongly disagree

10. The budget has been a myth to many stakeholders with only the ministry of finance having the upper hand. One of the key principles of MTEF is to increase transparency in the budgetary processes. In your opinion, has the adoption of MTEF increased the budgetary transparency?

- i. Yes
- ii. No

**SECTION B: To compare incremental budgeting with MTEF**

Thick against the most appropriate response where;

1 = strongly agree

2 = Agree

3 = neither agree nor disagree

4 = Disagree

5 = strongly disagree

	1	2	3	4	5
1. MTEF has led to fiscal discipline as opposed to incremental where there was no 'hard budget constraints'					
2. Incremental budgeting was prone to manipulation and was a fertile ground for malpractice with high corruption risk.					
3. MTEF has improved the estimation of macro-economic aggregates (revenue, expenditure, budget deficit net external and internal financing) including forward year's budget estimates.					
4. Incremental budget was easier to implement and consumed less time as compared to MTEF					
5. MTEF has improved adherence to key budget timelines as set out in the budget calendar					
6. Incremental budgeting process favoured some 'politically correct' areas					
7. MTEF has given greater financial autonomy to ministries.					
8. Incremental budgeting was exclusive to the treasury and ministry of finance officials with little input from line ministries					

**Section C: MTEF Flexibility, Comprehensiveness and Transparency of resources under budgetary process**

Tick the most appropriate where;

1= Excellent

2= Very good

3= Good

4= Fair

5= Poor

	1	2	3	4	5
1.To what extent does MTEF improved the flexibility of expenditure and revenue projections					
2.How does MTEF enhanced macroeconomic flexibility in Ghana					
3.To what extent has MTEF improved adherence to set budget flexibility					
4.Rate the level of MTEF flexibility in Ghana					
5.State the degree of comprehensiveness of the information included in the budget under MTEF process					
6.How well has the adoption of MTEF increased budgetary transparency and of other stakeholders in the budgetary process					
7.What is the level of public participation in the annual budgetary cycle in the context of MTEF					
8. How well does the MTEF process reflect multi- year perspective in fiscal planning, expenditure policy and budgeting?					

## **Section D: Significance of the indicative ceilings of the MTEF subsequent years**

1. Are the two outer year estimates of MTEF useful?
  - i. Extremely useful
  - ii. Very useful
  - iii. Moderately useful
  - iv. Slightly useful
  - v. Not useful at all
  
2. Do you use the subsequent year indicative ceilings to project your resource requirement in the following financial year?
  - i. Yes
  - ii. No
  
3. Do you agree that the indicative subsequent year ceilings should roll over and become the annual estimates, hence the complete cycle of MTEF budgetary process?
  - i. Strongly agree
  - ii. Agree
  - iii. Neither agree nor disagree
  - iv. Disagree
  - v. Strongly disagree
  
4. Is the entire resource envelop shared out at the sector level or are there any consideration done behind the scenes
  - i. Yes
  - ii. No

