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ECONOMIC COMMISSION FOR AFRICA

Workshop on Problems of Budget
Reclassification and Management

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BUDGET REFORMS IN GHANA

Prepared by the Participants from the
Republic of Ghana

BUDGET REFORMS IN GHANA

The Ghana delegation is presenting two papers. The first one will deal with budget reclassification and the second - which is this one - will confine itself to improvements achieved in the presentation of the budget and in budgetary control.

THE BACKGROUND

Article 31(1) of our Republican Constitution of 1960 enjoins on the President to cause "to be prepared annually under heads for each public service estimates of expenditure, other than expenditure charged by law on a public fund or on the general revenues and assets of Ghana, which will be required to be incurred for the public services during the following financial year; and, when approved by the Cabinet, the estimates so prepared (which shall be known as "The Annual Estimates") shall be laid before the National Assembly". The Constitution, however, did not introduce a new concept; annual estimates had been compiled and published during colonial days and long before Ghana's Republican Constitution was enacted.

The estimates in colonial days were very simply presented. Under each Department's estimates were listed all the appointments and the amounts required to pay for their salaries and wages. Also listed were funds required for transportation, general expenses and such minor capital expenditures as were needed. As major capital projects were financed out of the surplus earnings of Government as and when necessary development estimates were not a permanent feature of the annual estimates. The estimates for each Department were covered by a brief memorandum in which an attempt was made to explain any changes in the provisions sought as compared with those for the previous year. The estimates did not give any indication regarding the programmes of the departments or reasons why the funds were required.

The first change came in 1951 when the Government launched the First Five-Year Development Plan. The plan provided for a total capital expenditure of £G74 million and to finance it a special fund known as the "Cocoa Duty and Development Fund" was created by an Act of Parliament. The Act provided that proceeds from export duty on cocoa should be paid partially to the Consolidated Fund which financed all recurrent expenditure, and partially to the Development Fund, if the export duty on cocoa exceeded a certain level, for financing development plan projects. It therefore became necessary to draw up two separate estimates each year - one of recurrent expenditures which was to be paid out of the general revenues of the country i.e. from the Consolidated Fund and the other of capital expenditures to be met out of the Development Fund. The compilation of estimates of recurrent expenditure continued to be the responsibility of the Ministry of Finance but a separate body - the Development Commission - was set up and charged with the responsibility not only of preparing the development estimates but also of seeing to it that the Development Plan was carried out according to schedule.

This procedure was neither sound nor effective. The Ministry of Finance, which was until recently responsible to the Cabinet of Ghana for overall economic policy, had little control over development expenditures, there was little co-ordination between development expenditures and recurrent costs and there was often an overlapping of functions and activities as between departments and ministries as a result of this lack of co-ordination. There could not, in these circumstances, be an effective control over public expenditures. Ghana at that time had as its Economic Adviser Professor Arthur Lewis, and he recommended that the budgetary procedures should be greatly improved, and that a Bureau of the Budget should be established to deal with all budgetary matters. He further recommended that an expert in this field be invited from the United States or Canada to examine existing procedures and to make recommendations. As it happened, a United Nations expert, Mr. David Dinour, was already available in the country who could undertake this assignment and he was asked to assist in setting up the Bureau of the Budget.

THE BUREAU OF THE BUDGET

The Bureau of the Budget was set up in July, 1959 with a Secretary and a staff of six, all of them Ghanaians. Its duties as stated briefly by the Minister of Finance at the time were "to advise on budgetary policy as well as to prepare annual estimates of expenditure and revenue".

Its functions, according to a circular letter issued by the Prime Minister's Office were as follows :

- "(i) To assist Ministries and Departments in the preparation of their estimates both recurrent and development. On development estimates the Bureau will act in consultation with the Development Commission in the Prime Minister's Office.
- (ii) To advise the Minister of Finance in the preparation of the Budget and in the formulation of the fiscal programme.
- (iii) To control the execution of the budget as approved by Parliament subject to the directions of the Cabinet. For development estimates this function will be undertaken by the Development Commission in close consultation with the Bureau of the Budget.
- (iv) To examine and recommend for approval or otherwise supplementary estimates during the financial year.
- (v) To carry out investigations into the activities of Ministries and Departments in order to assess the cost of programmes and future requirements.
- (vi) To inform the Standing Development Committee on the revenue and Expenditure of Ministries and Departments both under the annually recurrent and development estimates in order that fiscal policy may be co-ordinated and that funds made available to them may be spent in the most economical manner with the least possible overlapping and duplication of effort".

THE 1960/1961 BUDGET

The Bureau of the Budget had as its aim the introduction of performance budgeting but realised that this could only be introduced gradually over a number of years. Its immediate objective was therefore to get the various agencies of government to submit their estimates in economically meaningful terms and to relate them directly to their programmes of work and at the same time to improve on the presentation and layout of the estimates.

Meetings were arranged with heads of Departments and Ministries at which the new approach to the preparation of the estimates was explained. These meetings were later followed by a circular letter in which detailed instructions were given for the guidance of officers responsible for the preparation of departmental estimates. In these instructions Departments and Ministries were asked to "focus attention on the general character and relative importance of the work to be done or upon the service to be rendered rather than upon the things to be acquired, such as personal services, supplies, equipment and so on". To enable them to present their estimates in the new form, Departments were asked to list their activities and describe them in a narrative statement indicating what their programmes are, and what they hope to achieve in the budget year. They were asked to submit their estimates suitably divided up, where practicable, to correspond to the activities as listed and described in that narrative statement so that each activity was provided for in the estimates as a Sub-Head of expenditure, the Department's or Ministry's estimates as a whole being classified as a Head of expenditure. It was realised that a few Departments might not find it practicable to split up their estimates to relate to each of their activities and it was therefore decided that, initially, no attempt should be made to divide up estimates to correspond to departmental activities unless the actual staff and amounts could be physically separated.

The estimates for a sub-head, representing an activity or programme of a department, were to be divided into five standard items as follows:

- Item 1 - Personal Emoluments
- Item 2 - Travelling and Transport
- Item 3 - General Expenses
- Item 4 - Other Expenses
- Item 5 - Extraordinary.

In some cases a sixth item - Subventions - could be created, under which grants made by Government to local as well as international organizations were to be shown.

Each of these items were to be further sub-divided into sub-items of expenditure. Under "Personal Emoluments" for example the sub-items were to provide separately for pensionable posts, non-pensionable posts (other than daily rated posts) and daily rated posts, as well as for other personal allowances. Under "General Expenses" a number of sub-items were listed to provide an object classification of expenditure applicable to almost all departments and under "Extraordinary" sub-items were to provide for expenditure on minor capital works, office furniture and equipment, motor vehicles, etc..

These estimates were to be supported by a "justification" explaining concisely why the amounts were required, and the reasons for any increases or decreases in expenditure.

The estimates of each Ministry were to be compiled into a volume of the annual estimates and were to be preceded by a general memorandum indicating which departments come within that Ministry's portfolio, the total amounts required for each department and the changes which have occurred in the Ministry's composition and functions as well as in its total expenditure.

These notes for the guidance of officers responsible for compiling estimates were issued in September 1959 and the estimates were required to be submitted by January of the following year. At about the same time a circular was issued by the Ministry of Finance setting out the policy to be borne in mind in compiling the estimates for that budget year.

During the interval when Departments were compiling their estimates, budget officers from the Budget Bureau; each of whom has been assigned to work on the estimates of a number of departments, had discussions with the various departments on the formulation of their estimates and helped them in presenting their estimates in relation to their programmes.

The estimates submitted by Departments were carefully examined by budget officers before representatives of the departments concerned were invited to budget hearings at which the estimates were subjected to very critical examination. At these hearings explanations were given of departmental activities, objectives and achievements in justification of the amounts asked for.

Government derives its revenues from a number of sources, predominantly these days from import and export duties, including export duties on cocoa; excise and local duties including local duties on cocoa, sales of goods and services, fees and regulatory charges, etc. The Government agencies which collect these revenues were asked at about the same time that the estimates of expenditures were being compiled to submit estimates of revenue likely to be derived during that budget year at existing rates of taxation, fees, etc.

Before the 1960/1961 estimates Government revenue and receipts were classified under the following heads:

1. Indirect Taxation
2. Direct Taxation
3. Licences and Internal Revenue, etc.
4. Fees and charges, etc.
5. Receipts and earnings, etc.
6. Reimbursements

7. Rents on Government Lands, etc.
8. Interest and Redemption
9. Miscellaneous Receipts
10. Colonial Development and Welfare
11. Special Receipts.

With the 1960/1961 estimates the receipts of Government were reclassified under eleven new heads as follows:

1. Taxes on Production and Expenditure
2. Taxes on Income and Property
3. Fines, Penalties and Forfeitures
4. Sales of Goods and Services
5. Rents on Government Lands, Buildings and Houses
6. Fees and Charges
7. Interest and Profits
8. Redemption
9. Transfers between Government Agencies
10. Grants
11. Miscellaneous.

This reclassification was introduced to provide a more meaningful breakdown of Government receipts and was undertaken as part of the continuing process of improving on the formulation and presentation of estimates.

These revenue estimates and other receipts of government were subjected to the same critical examination as the expenditure estimates. The Budget Secretariat examined with the main revenue collecting departments their functions in collecting government receipts and how adequately they had prepared for their tasks and at the same time assessed future trends. One of the difficulties encountered in the compilation of revenue estimates is the determination of the total revenue to be derived in any budget year from export duty on cocoa. There are a number of variables to take into account in determining this amount. The world price of cocoa, or more

directly the price at which Ghana can sell her cocoa determines what export duty per ton can be collected. Market prices change from time to time on account of a number of factors, one of which relates to world cocoa production. The size of the total revenue to be derived from export duty depends on the size of the cocoa production which may fluctuate in relation to climatic and other conditions, and which has to be estimated in advance of the actual harvesting of the crop. This presents interesting problems which perhaps at a future date may be fully discussed if another budget workshop were convened to discuss more fully revenue estimating.

As was to be expected some Departments did better than others but I think it is worth mentioning that all Departments and Ministries co-operated very well and the resultant document - the Annual Estimates for the fiscal year 1960-1961 - was a great improvement on previous ones, in spite of the fact that the Development Estimates were still compiled and printed separately. Of this document the Minister of Finance had this to say in his budget statement delivered to Parliament on the 20th July, 1960:

"I trust that all Honorable members have spared some time to read the narrative statements and justifications accompanying the estimates; they will, I am sure, agree that this form of presentation is an improvement on the old, and that the initial improvements which have been introduced have made the estimates more intelligible. These improvements will be continued in succeeding years so that our budgets may take on a more modern look, and eventually be brought in line with contemporary developments elsewhere".

The estimates, as published for the financial year 1960/1961 not only identified departmental programmes but also provided an object classification of expenditures. It provided each head, sub-head, item and sub-item of expenditure with an account number consisting of nine digits arranged in three digits series which was to be quoted on all expenditure vouchers. The first three digits provide an account number

for the Head of expenditure, and identifies a department, Ministry or Secretariat. The next two digits of the second set of three digits identify the sub-heads of expenditure, the third digit of the second set of digits represents items of expenditure and the third set of three digits sub-items of expenditure.

For the first time it was also possible to produce Budget Charts of expenditures and receipts, the trend of Government revenue and expenditure over the past eleven years, the growth of recurrent and capital expenditures since the fiscal year 1955/1956, functional and economic classification of the estimates, as well as an object classification of expenditures.

THE 1961/1962 BUDGET

The Budget Bureau, which hitherto had been a part of the Ministry of Finance, was removed from the control of the Ministry of Finance in May, 1961, renamed Budget Secretariat and brought under the direct control of the President. This had been done as announced by the President in order to co-ordinate action with regard to financial control, to initiate vigorous action to eliminate waste and extravagance in Government expenditures and to develop a more dynamic approach to financial matters.

By this time the budget process had already started; the circular letter containing instructions for the guidance of officers responsible for the preparation of the estimates as well as that setting out the policy to be followed in the compilation of the estimates had been issued and the preliminary examination of some department draft estimates had begun.

An improvement in the presentation of the estimates which has occurred as a result of this change is that both recurrent and capital estimates are now being shown in one single document. This has been done by creating under each head of the estimates a seventh item called "Development Plan Expenditure" under which capital expenditure and other

development projects appropriate to that head are listed. It thus became possible, for the first time, for each Ministry to know readily what amounts have been provided for both recurrent and development expenditures, that is, for its entire work programme. With the 1962/1963 budget the Budget Secretariat will be solely responsible for the preparation of both the recurrent and development sections of the estimates to enable Ministries and Departments to relate more realistically their development plan expenditures to their recurrent expenditures. A number of minor improvements have also been made; these include improvements in the narrative statements, a further breakdown of departmental activities and in a few cases, the introduction of work units. It is intended to carry on with these improvements in subsequent years.

BUDGETARY CONTROL

After the annual estimates have been approved by Parliament, warrants are issued to enable departments to incur expenditures within the limits specified in the estimates. Before the 1st of July this year, warrants were issued for the total amounts specified in the estimates. It has not been possible to maintain a close check on expenditures with the result that there invariably are serious cases of over expenditures by departments, which are not revealed until the Accountant-General has finalised his accounts for a budget year, after three or more months after the year has ended.

This year it has been decided that funds will be allocated quarterly in accordance with the approved estimates. The first quarter's allocation has already been authorised and the second quarter's allocation is due next October. It has, however, been realised that while it is easy to control expenditure this way with regard to the recurrent portion of the estimates, it is not so easy to do so with the capital (development) expenditure. Some projects proceed much faster than others and funds have often to be released to suit the tempo of the work. At the same time it is essential to ensure that the funds already released have in fact been

spent, or properly committed and that by releasing money to finance projects which are going on more quickly, departments are not encouraged to exceed their allocations for those particular projects. The Budget Secretariat has to be very vigilant in this connection and has yet to work out a satisfactory approach to this problem but the views of the Workshop will be appreciated.

The Budget Secretariat is doing all it can to discourage applications for supplementary provision. In this connection the President has already told Parliament in a statement which he delivered last July that in future requests for supplementary provisions will only be sanctioned if the Ministry, Secretariat or Department requesting additional funds is ready to surrender an equivalent amount from its existing votes and if the expenditure cannot in view of its importance or urgency be postponed to another budget year. The Budget Secretariat hopes that this approach will stimulate Ministries and Departments to plan in advance of budget year and to submit more realistic and carefully thought-out estimates.

AIMS AND DIFFICULTIES

The aim of the Ghana Government is eventually to introduce performance budgeting. What has been achieved so far is far from perfect but one cannot agree more with the general feeling expressed at the Third Workshop at Bangkok that the introduction of performance and programme techniques should be regarded as far of an evolutionary process, and that it should be carefully phased to ensure orderly progress.

I have already mentioned some of our difficulties; there are two others I should mention. The first is the shortage of trained personnel. The Secretariat's staff is being called upon to undertake specialised tasks in connection with the Budget. Apart from taking on the development section of the annual estimates the Budget Secretariat has also been asked to examine the estimates of public boards and corporations and undertake staff inspections in those organizations. The problem now is to

recruit suitable staff and train them for all these duties. I must here say how very grateful Ghana is to the United Nations Technical Assistance Board for their assistance. Last year two members of the staff of the Budget Secretariat were awarded Fellowships to attend the Third Workshop held in Bangkok as observers. This was followed by a study tour of the Philippines. Later in the year two other members were also awarded Fellowships which took one of them to the United States and Canada and the other to the Philippines. This year, too, another member of the staff who is with us here at this Workshop will visit the Philippines to study more about programme and performance budgeting. I hope we can continue to benefit by such assistance in the future. When the Secretariat has succeeded in training its own staff, it will be its aim to train budget officers for Ministries and Departments; without trained personnel in the various Ministries work on departmental budgets will be unsatisfactorily undertaken and progress in implementing our objectives is likely to be very slow.

The second problem resides in the office of the Accountant-General, the chief paymaster of the Ghana Government. Although the department is mechanised, the compilation of its returns is invariably months in arrears with the result that only inadequate information is available for appraising requests for funds by departments in connection with supplementary and annual estimates. It is hoped that the department's performance will improve and that with technical assistance which has already been sought it will be possible for the department to produce its accounts more promptly than has been the case in the past and to provide the Secretariat with all the information it requires for a proper examination of estimates. Any further improvements in the formation and presentation of estimates will depend on these improvements first taking place.