

BUDGET PRESENTATION

PRESENTATION BY THE
MINISTRY OF FINANCE AND ECONOMIC
PLANNING

TO

THE YOUTH ECONOMIC LITERACY
WORKSHOP

THURSDAY 2ND JUNE, 2011



BUDGETING IN GHANA



Traditional Budgeting – Pre 1900

- Traditional Rulers - Roman Empire, African Tradition Societies (pre 1900) – Collection of Taxes, levies and spending
- budgeting was characterized by weak executive power, little central control and processes that were idiosyncratic.
- The effect was a general concern of increasing danger of substantial corruption.

Key Issues from Budget Developments

- Balanced Budget in early 1900's. –Budget scrutiny limited to legality, economy and efficiency of expenditure.
- World War 1 and 2. Birth of Fiscal Policy – John Maynard Keynes and advocate for deficit spending. Keynesian Economics. Budget now had administrative, accounting, economic and financial objectives interfacing to produce fiscal policy.


Purpose of a Budget

- The Budget process allows the Government to:
 - set its fiscal or macroeconomic objectives in respect of revenue to be collected, expenditure to be incurred, debt repayment and investment;
 - maintain an effective budget control and plan for the coming year and beyond;
 - allocate the available resources, consistent with the Government's strategic objectives and priorities;
 - fulfill the legislative requirements for the Budget; and
 - seek authority from Parliament for spending.



A Budget is

- A plan for the revenues and expenditures of the state
- BASIC BUDGET PRINCIPLES
 - **Annuality:**
 - **Unity:**
 - **Comprehensive:**
 - **Predictability**
 - **Transparency and accountability**
 - **Flexibility**



**LEGAL
FRAMEWORK
OF THE
NATIONAL
BUDGET**

THE 1992 CONSTITUTION

- Sets out the roles of the executive, legislative and judicial branches and provides the basis for resource mobilization and their expenditure.
- It defines the consolidated fund and requires all revenues and moneys to be paid into it except those that may be payable to some other specific fund established by an Act of Parliament.
- The authorization of expenditure is derived from the President submitting estimates of revenue and expenditure to Parliament for approval.
- The Constitution requires the estimates to be classified by programme or activities.
- Under the constitution all loans raised by Government requires the Authority of an Act of Parliament.

Financial Administration Act (FAA), 2003 and the Financial Administration Regulation

- The FAA details the financial management regulatory framework for the central government, statutory corporations and other public institutions.
- However it requires all persons who collect or receive public moneys to keep records of receipts and deposits in a manner as prescribed by the Controller and Accountant General.
- The FAA, 2003 requires that no payments be made in excess of the amounts approved under an Appropriation Act.



Procurement Legislation

- The Public Procurement Act, 2003 establishes competitive tendering as the preferred procurement method. It sets thresholds for procurement methods that guide the use of less competitive methods.

Internal Audit Agency Act, 2003 (Act 658)

- The Internal Audit Agency Act establishes an Internal Audit Agency responsible for setting the standards and procedures for the conduct of internal audit within the MDAs and the MMMDAs.
- Its role is to safeguard public funds, ensure compliance with the legal and regulatory framework, policies, plans and standards and to ensure that financial reports are accurate, regular and timely, and that risks are managed effectively.
- It is also responsible for promoting economy, efficiency and effectiveness in the implementation of government programmes.
- The law establishes Internal Audit Units within each MDA and MMMDA and makes Audit Report Implementation Committees (ARIC) responsible for the implementation of internal audit recommendations.



The Audit Service Act, 2000

- The Auditor-General is required to submit audit reports to Parliament within six months after the close of the fiscal year. The Audit Service Act establishes the ARICs to be Ghana Public Expenditure and Financial Accountability 54 (PEFA) 2009, Volume I responsible for the implementation of audit findings and recommendations of the Public Accounts Committee (PAC).

Local Government Act, 1993 (Act 462)

- The Local Government Act sets out the political and administrative arrangements at the regional and local levels. It establishes the Regional Coordinating Councils (RCCs) and the Metropolitan, Municipal and District Assemblies (MMDAs). The Act provides
- MMDAs with the responsibility for managing overall development within the Districts and outlines the framework for the MMDAs to exercise their executive and legislative functions.
- It specifies the operations of the general assembly, planning functions, financial issues, rating responsibilities and audit requirements. The Act also establishes the allowable revenues that can be generated by District Assemblies.



TERMINOLOGIES USED IN THE BUDGET STATEMENT

A. *TOTAL RECEIPTS*

Total Receipts:

- This is the total amount of money or money's worth that government receives or is able to collect either from within the country (i.e. Total/domestic revenue) or from other countries or institutions (i.e. Grants). This is what government uses to finance its operations.

Total (Domestic) Revenue:

- Sometimes called domestic revenue because they are domestically collected. It comprises of Tax and Non-Tax Revenue. This is the main source of revenue for the government.

Tax Revenue are compulsory receipts collected by CEPS, IRS and VATs.

Direct Taxes are constitutionally binding payments made by both individuals and corporate institutions on their earnings/income to the government. Internal Revenue Service collects these monies on behalf of the government in the form of personal taxes, company taxes and any other direct taxes.



A. TOTAL RECEIPTS CONT'D

- **Indirect Taxes** are compulsory receipts which are sometimes known as consumption taxes. The amount you pay depends on your level of consumption of goods and services. This includes Value Added Tax (VAT), Petroleum and Excise Taxes.
- **International Trade Taxes** are compulsory taxes applied on imports and selected exports known as import and export duties.
- **Non-Tax Revenue** consists of all fees and charges (Visa Fees, Passport Fees, License Fees, Court charges etc), dividends from Government holdings in companies and other non tax receipts accruing to Government.



A. TOTAL RECEIPTS CONT'D

- **Grants:**

These are monies received from our development partners and other institutions. Although this is important, it currently constitutes just a minimal portion of Ghana's receipts. Grants include programme and project grants, HIPC Assistance and Multilateral Debt Relief Initiative (MDRI)



EXPENDITURE

- **Recurrent Expenditure:**

By its name this implies expenditure that occurs or is incurred year by year such as salaries of government workers.

- **Capital Expenditure**

Capital expenditure are one off expenditure incurred in the acquisition of good and services such as expenditure on the construction of roads, schools and hospitals.

- **Statutory**


These forms of expenditure are backed by law or required by the constitution. The government is under obligation to make such payments. These include payments to the GET Fund, the District Assemblies Common Fund, Debt Service and Pensions.

- **Discretionary**

These expenditure are incurred at the discretion of government. Government can choose to pay or forgo its payment for a latter date.

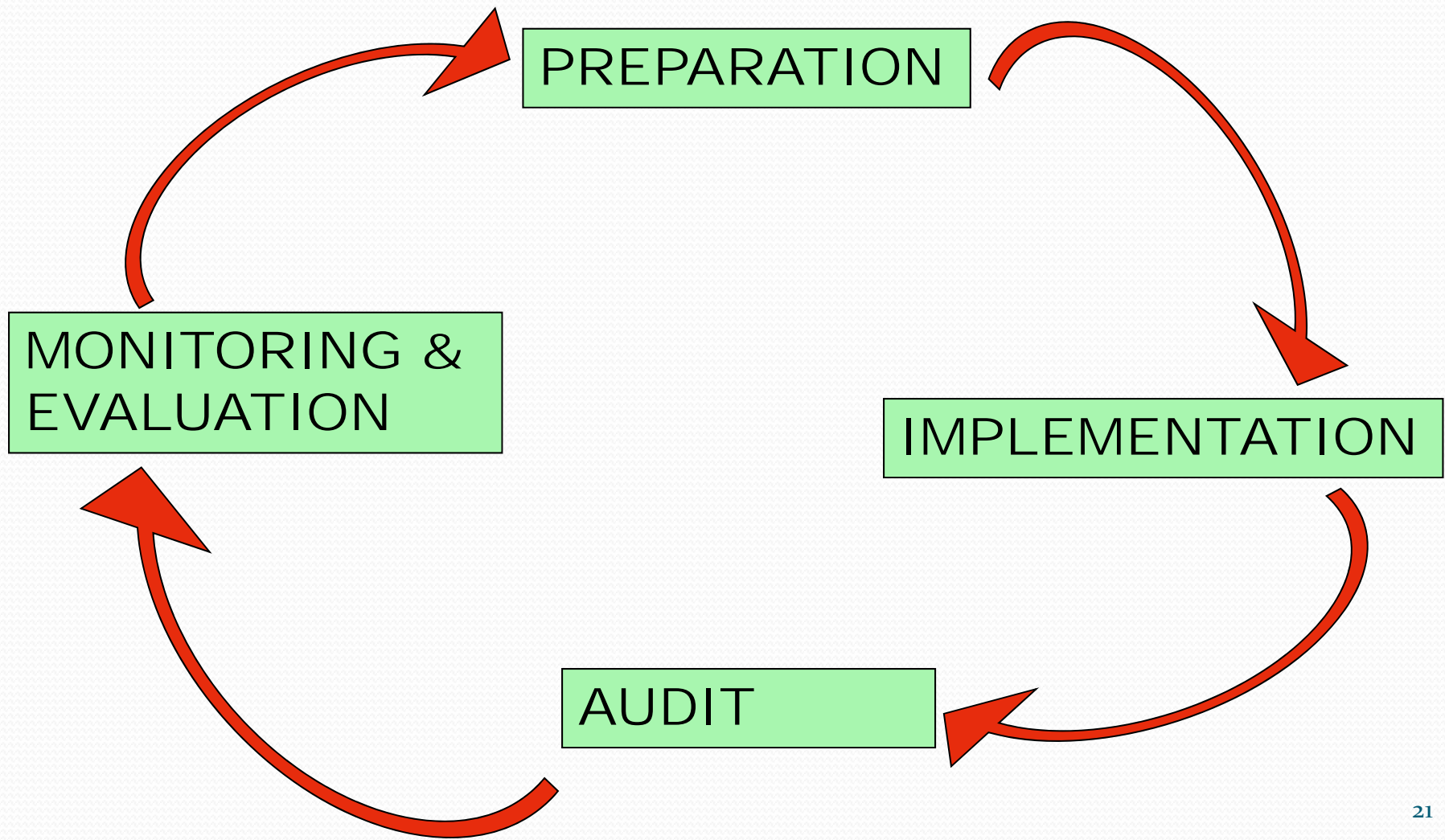
EXPENDITURE CONT'D

- **Personnel Emoluments** (Item1) is made up of basic salaries of existing staff and any new recruitment for all Ministries, Departments and Agencies.
- **Administration** (Item2) consists of allowances, utility payments for all Ministries, Departments and Agencies.
- **Service** (Item3)
- **Domestic Investment** (Item4) All MDAs are to note that investment expenditure (Item 4) consists of two areas of spending. They are:
 - Non Developmental Investment which is used solely for expenditures on MDAs own internal functioning, and consists of office equipment such as computers, buildings for the MDA, furnishings and vehicles; and
 - Development Investment which impacts directly on the society. In some MDAs this will be made up of spending on the construction of schools, clinics, boreholes, equipment for irrigation etc depending on the MDA's mission statement and objectives.



BUDGET PREPARATION CYCLE

THE BUDGET CYCLE





FORMS OF GOVERNMENT

- CENTRAL
- STATE OR REGIONAL
- LOCAL
- SUPRANATIONAL AUTHORITY

PROCESS

STEP	PERIOD	ITEM
STEP 1	January-February	<ul style="list-style-type: none"> • Submission of memoranda • Updating Macro Economic framework
Step 2-	February-March	<ul style="list-style-type: none"> • Policy Review <ul style="list-style-type: none"> ○ Review of MDAs policies and expenditures in line with Government Development Policies ○ Cross Sectoral Meetings of MDAs
STEP 3-	March - April	<ul style="list-style-type: none"> • Review of Sectoral Ceilings <ul style="list-style-type: none"> ○ Possible Resource Envelope Change due to current macroeconomic developments ○ Updating Policy Direction of MDAs due to policy review process or Cabinet decisions
Step 4-	April / May	<ul style="list-style-type: none"> • Issuance of Budget Guidelines
STEP 5:	June – August	<ul style="list-style-type: none"> • Policy Hearing <ul style="list-style-type: none"> ○ MOFEP/NDPC meet MDAs to discuss the policies that underline their broad strategic directions. ○ The hearings provide opportunity to review areas of overlap and duplication in objectives, key outputs and outcomes to be produced.
STEP 6:	September	<ul style="list-style-type: none"> • Technical Hearing <ul style="list-style-type: none"> ○ MOFEP meets all MDAs to review their strategic plans and expenditure estimates
STEP 7:	October	<ul style="list-style-type: none"> • Cabinet approval
STEP 8:	September - November	<ul style="list-style-type: none"> • Budget Statement and Economic Policy of Government
STEP 9 –	December	<ul style="list-style-type: none"> • Parliamentary Select-Committees Hearing
STEP 10-	December	<ul style="list-style-type: none"> • Passage of Appropriation Bill to Appropriation Act
STEP 11 -	December – March	<ul style="list-style-type: none"> • Budget Dissemination



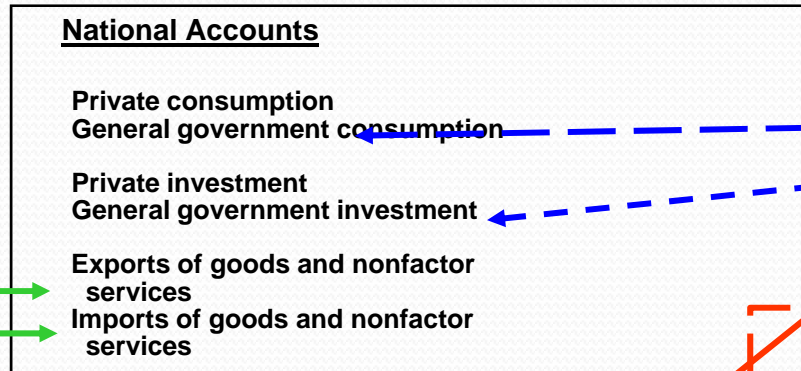
The Budget and Economy

Analogy: The Budget and Economy as a CAR

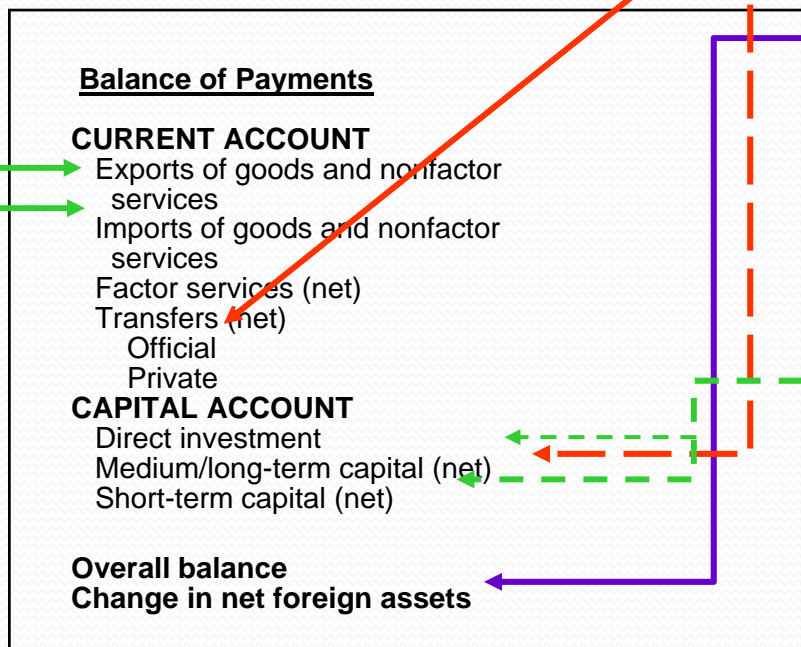
- Driver
- Mechanics/Fitters
- Passengers
- Size of the CAR – Expandable & Contractable
- Speed of Car – Fast, Just Right, Slow
- Direction of Movement – Forward & Backward
- Gauges of the CAR – Fuel, Water Temperature, Tachometer, Speedometer, Elevation/Incline gauge

Interrelationships Among Macroeconomic Sectors

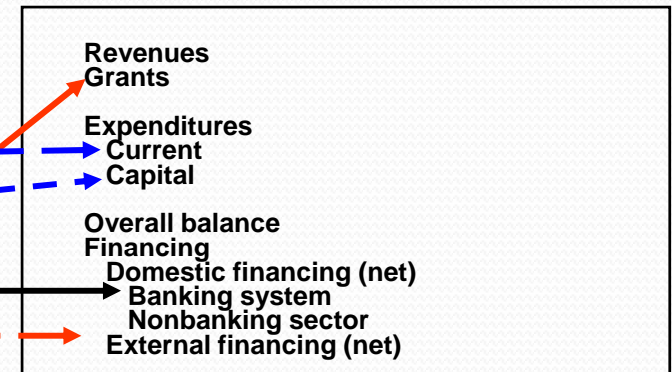
REAL SECTOR



EXTERNAL SECTOR



FISCAL SECTOR (GOVT OPERATIONS)



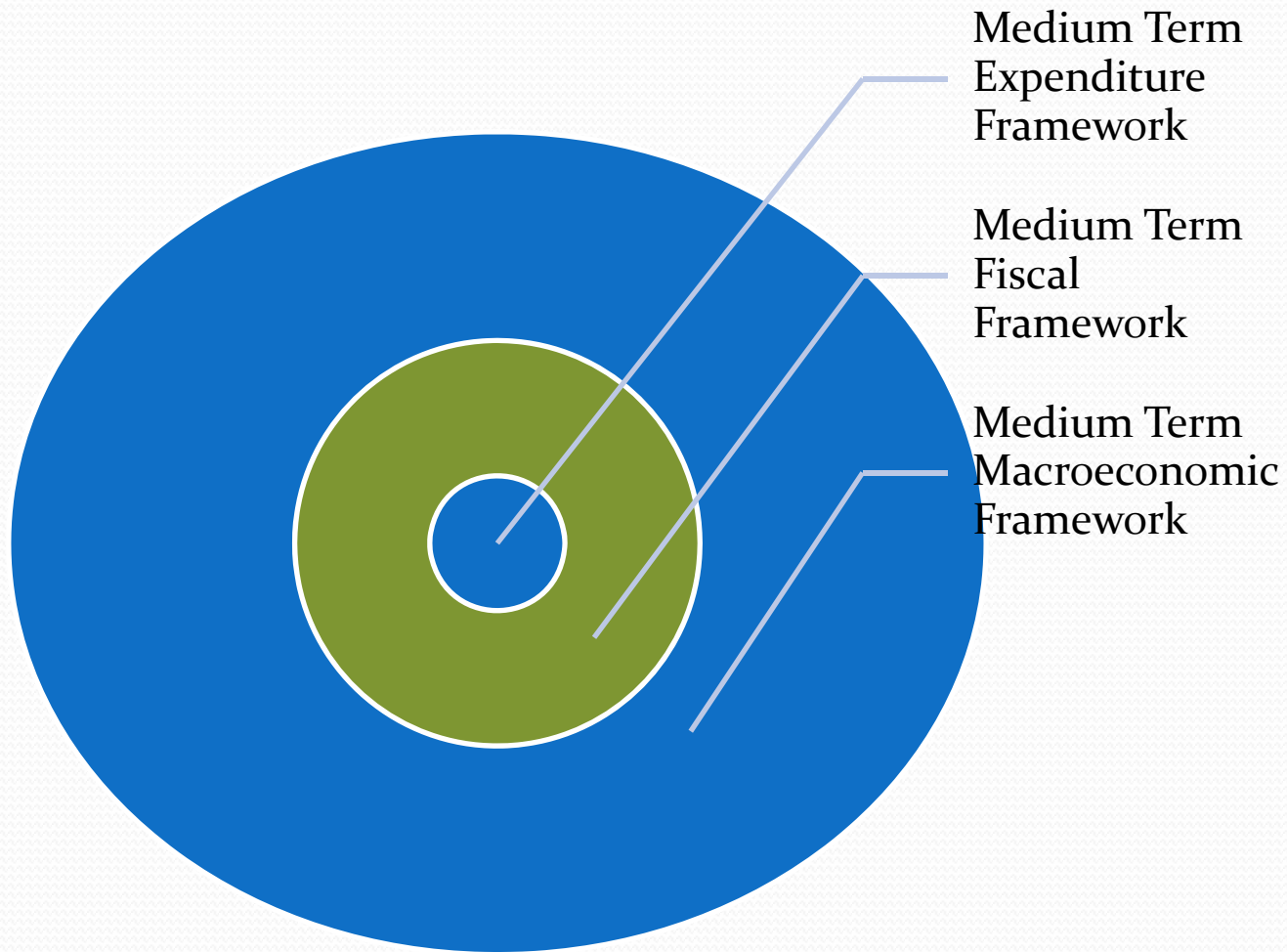
MONETARY SECTOR



—————> Accounting identities
 - - - - -> Strong accounting relationships

6/2/2011

The Fiscal Framework





COMPONENTS OF THE BUDGET

Section 1: Introduction Gives the theme of the Budget and a general expectation of the Budget.

- **Section 2: World economic developments and outlook**
Identifies global economic development with regard to commodity prices, inflation and growth and its effect on the Ghanaian economy


Section 3: Macroeconomic performance for previous year This section presents the Macroeconomic performance for the previous year. Here issues such as inflation, GDP growth, Balance of payments, Money supply, Revenue, Expenditure and Budget Deficit are discussed

- **Section 4: Macroeconomic framework for the medium term** This presents the economic indicators for the next 3 years. These include GDP target, inflation, deficit and external sector targets for the fiscal year.

- **Section 5: Sectoral Performance and Outlook** The performances of the MDAs during the past year are highlighted in this section as well as an outlook of their schedule of activities for the ensuing fiscal year.
- **Section 6: Poverty Reduction Expenditures towards achieving the MDGs** This section identifies government expenditure on poverty reduction in the previous year as well as poverty reduction expenditures and progress towards achieving the millennium development goals.

• **Section 7 Policy Initiatives:** Deals basically with new policy initiatives. Revenue Enhancing Measures or Expenditure Rationalizations and others

- **Section 8 implementation challenges:** Identifies challenges to the implementation of the budget. These may include risks to achieving macro stability, revenue targets and proposed expenditure disbursements for the ensuing fiscal year.

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- Section 9 Conclusion: provides a summary of government programme and policies to be achieved in the proposed fiscal year taking into account challenges to meeting these objectives.
 - Appendix Tables



BUDGET ANALYSIS

Measuring GDP growth

- Gross Domestic Product (GDP)
 - Why GDP and not GNP
 - Nominal vs. Real
 - GDP deflator
- GDP (expenditure approach)
- $GDP_t = C + I + G + X - M$
- $GDP_t = \text{agric} + \text{industry} + \text{service} + \text{indirect taxes}$

$$= \frac{GDP_t - GDP_{t-1}}{GDP_{t-1}} \times 100$$



Fiscal Analysis - Total receipts

- Total receipts = total revenue + grants + others
- Total Revenue = tax + nontax
- Tax revenue = direct taxes + indirect taxes + international trade taxes

Expenditure

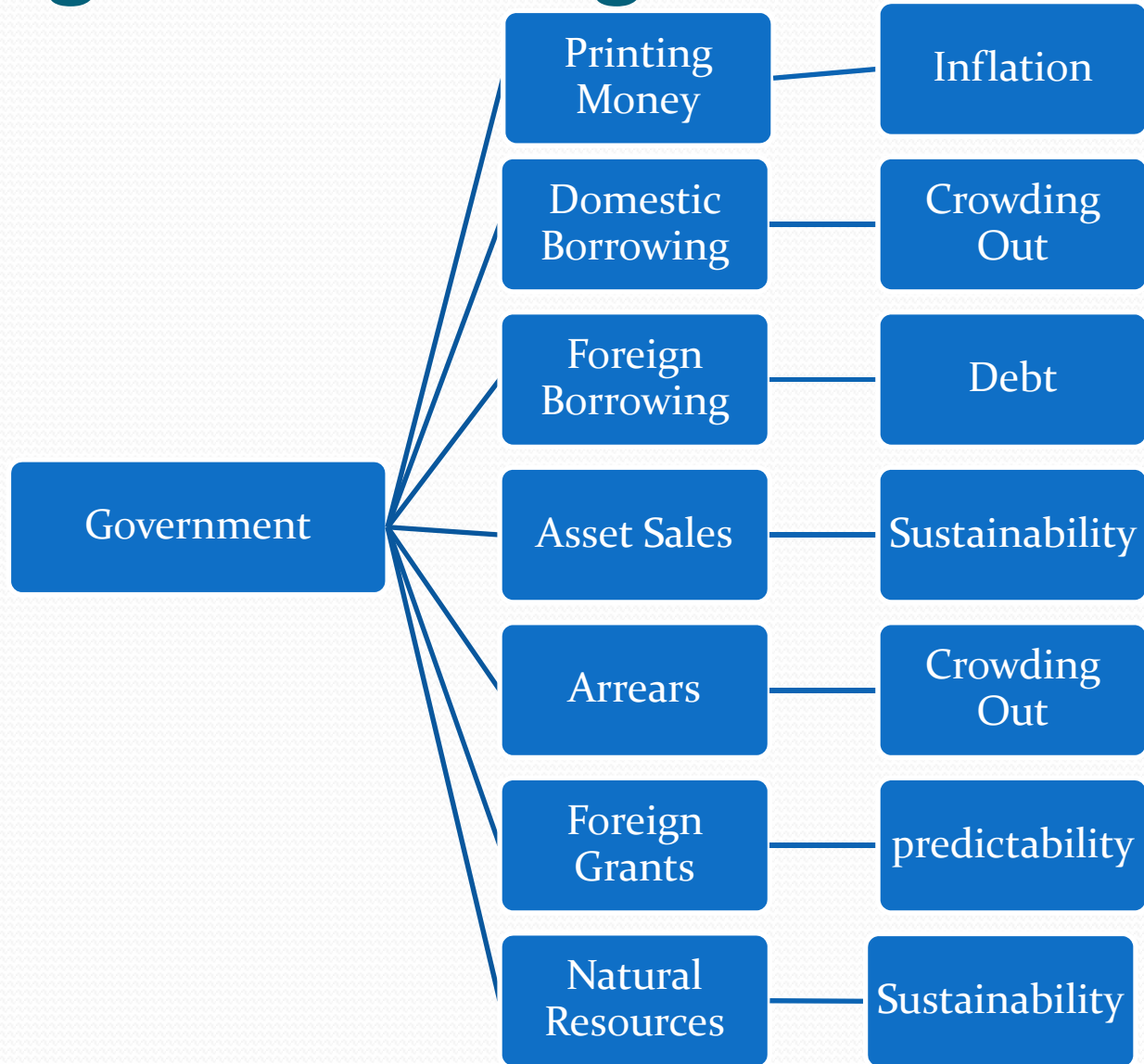
- Recurrent Expenditure = Wages and Salaries + Goods and Services, interest payments + NHIL
- Capital Expenditure = Domestic investment + DACF + GETFund + Foreign investment



Financing the Deficit

- Borrowing from the Central Bank
- Borrowing from the rest of the Banking System
- Borrowing from the domestic nonbank sector
- Borrowing abroad or running down foreign exchange reserves

Budget Financing Matters



MDA allocations

- MDAs allocations are based on the MTEF
- Resources are allocated in line with sector policies
 - Sector Classification
 - Administration
 - Economic
 - Infrastructure
 - Social services
 - Public safety
- The proportion of resources released to MDAs are discretionary, i.e.
 - Personal Emoluments (Item1)
 - Administration (item2)
 - Service (item3)
 - Investment (item4)

RESOURCE ENVELOPE

- Total Resource Envelope informed by the Medium Term Fiscal Framework;
- Total Resource Envelope funded by both GoG and Donors;
- Recurrent Vrs. Capital
- Statutory and Discretionary

2010 Total Resource Envelope

Exp		2009 Revised Budget	2010 Budget	Growth Rate	% of GDP	
1	Cap	District Assemblies Common Fund	352,723,045	434,484,803	23.2%	1.7%
2	Rec	National Health Fund (NHF)	391,821,551	480,907,660	22.7%	1.9%
3	Cap	Education Trust Fund	279,355,405	326,693,250	16.9%	1.3%
4	Cap	Road Fund	123,282,407	145,230,400	17.8%	0.6%
5	Rec	Personal Emoluments	2,171,374,733	3,112,950,000	43.4%	12.0%
6	Rec	Administration	593,324,815	408,607,760	-31.1%	1.6%
7	Rec	Service	186,641,387	226,474,240	21.3%	0.9%
8	Cap	Domestic Investment	260,129,449	399,476,000	53.6%	1.5%
9	Cap	Foreign-financed Investment	1,475,565,000	1,528,427,100	3.6%	5.9%
10	Rec	Retention of Internally-generated funds	386,881,310	595,700,000	54.0%	2.3%
11	Cap	HIPC-financed Expenditure	131,788,000	209,312,000	58.8%	0.8%
12	Cap	MDRI-financed Expenditure	93,270,000	103,834,500	11.3%	0.4%
		Recurrent	3,730,043,796	4,824,639,660	29.3%	18.6%
		Capital	2,716,113,307	3,147,458,053	15.9%	12.1%
		Grand Total	6,446,157,102	7,972,097,713	23.7%	30.7%



MDAS SECTORS

- **General Administration**
- **Economic Services**
- **Infrastructure**
- **Social Services**
- **Public Safety**



Assumptions for Allocation

- GoG, HIPC, MDRI
 - Implementation of Single Spine;
 - Revenue Agencies Retention;
 - Annualised CAGD data on Expenditure;
 - Inputs from Policy and Technical Hearings;
 - Government's priorities ie. social service delivery, infrastructure delivery, public safety and economic growth;
- IGF, Donor, Statutory Funds
 - Given

ECONOMIC & INFRASTRUCTURE SECTORS


	GoG	IGF	HIPC	MDRI	donor	SUB-TOTAL		Statutory	GRAND TOTAL	
Economic	198,978,410	54,634,932	10,000,000	30,000,000	590,978,765	884,592,107			884,592,107	11.1%
1 Ministry of Food and Agriculture	77,200,180	4,935,030	10,000,000	-	164,751,255	256,886,465			256,886,465	
2 Ministry of Lands and Natural Resources	47,651,779	31,253,851	-	-	14,727,299	93,632,929			93,632,929	
3 Ministry of Trade and Industry	10,129,268	11,786,740	-	-	43,086,728	65,002,736			65,002,736	
4 Ministry of Tourism	7,418,440	338,649	-	-	-	7,757,089			7,757,089	
5 Ministry of Energy	6,097,303	-	-	30,000,000	293,686,461	329,783,764			329,783,764	
6 Ministry of Environment, Science and Technology	50,481,440	6,320,662	-	-	74,727,022	131,529,124			131,529,124	
Infrastructure	198,139,233	7,435,181	20,164,000	-	405,663,886	631,402,301		145,230,400	776,632,701	9.7%
7 Ministry of Water Resources, Works and Housing	23,141,670	845,430	15,164,000	-	138,857,802	178,008,902			178,008,902	
8 Ministry of Transport	20,625,976	3,711,951	5,000,000	-	-	29,337,927			29,337,927	
9 Ministry of Roads and Highway	146,286,116	457,800	-	-	205,385,802	352,129,718	Road Fund	145,230,400	497,360,118	
10 Ministry of Communication	8,085,471	2,420,000	-	-	61,420,283	71,925,754			71,925,754	
Total for Economic & Infrastructure	397,117,643	62,070,113	30,164,000	30,000,000	996,642,652	1,515,994,408		145,230,400	1,661,224,808	20.8%

Social & Public Safety Sectors

	GoG	IGF	HIPC	MDRI	donor	SUB-TOTAL		Statutory	GRAND TOTAL	
Social	1,791,374,848	483,912,413	158,422,000	48,800,000	293,591,591	2,776,100,853		807,600,910	3,583,701,763	45.0%
11 Ministry of Education	1,266,056,673	270,933,230	81,422,000	21,800,000	89,238,185	1,729,450,088	GETFund	326,693,250	2,056,143,338	
12 Ministry of Youth and Sports	28,342,885	1,293,784	-	15,000,000	-	44,636,669			44,636,669	
13 Ministry of Employment and Social Welfare	16,025,201	3,497,192	-	12,000,000	1,289,793	32,812,186			32,812,186	
14 Ministry of Health	400,450,711	208,180,300	8,000,000	-	110,240,429	726,871,440	NHIS	480,907,660	1,207,779,100	
15 Ministry of Women and Children's Affairs	4,139,359	7,907	-	-	4,371,404	8,518,670			8,518,670	
16 Ministry of Local Government and Rural Development	76,360,019	-	69,000,000	-	88,451,781	233,811,799			233,811,799	
Public Safety	463,998,692	7,121,000	5,000,000	-	6,288,069	482,407,761			482,407,761	6.1%
31 Ministry of Justice & Attorney General's Department	16,869,403	2,206,790	-	-	-	19,076,193			19,076,193	
32 Ministry of Defence	177,825,162	1,500,000	-	-	-	179,325,162			179,325,162	
33 Commission on Human Rights and Admin. Justice	7,579,504	-	-	-	-	7,579,504			7,579,504	
34 Judicial Service	51,773,230	968,660	-	-	-	52,741,890			52,741,890	
35 Ministry of Interior	209,951,393	2,445,550	5,000,000	-	6,288,069	223,685,012			223,685,012	
Total for Social & Public Safety	2,255,373,541	491,033,413	163,422,000	48,800,000	299,879,660	3,258,508,614		807,600,910	4,066,109,524	51.0%

ADMINISTRATION & OTHERS

	Administration	440,641,448	42,596,474	1,483,000	25,000,000	231,904,788	741,625,710		434,484,803	1,176,110,513	14.8%
17	Office of Government Machinery	138,506,327	372,000	-	25,000,000	194,796,087	358,674,414			358,674,414	
18	Office of Parliament	34,037,510	-	-	-	-	34,037,510			34,037,510	
19	Audit Service	31,132,348	-	-	-	-	31,132,348			31,132,348	
20	Public Services Commission	1,495,167	-	-	-	-	1,495,167			1,495,167	
21	District Assemblies Common Fund	215,960	-	-	-	-	215,960	DACF	434,484,803	434,700,763	
22	Electoral Commission	21,633,009	-	-	-	-	21,633,009			21,633,009	
23	Ministry of Foreign Affairs and Regional Co-operation	83,623,875	21,757,500	-	-	-	105,381,375			105,381,375	
24	Ministry of Finance and Economic Planning	85,408,724	1,770,100	1,483,000	-	36,390,685	125,052,509			125,052,509	
25	National Commission for Civic Education	8,625,708	-	-	-	-	8,625,708			8,625,708	
26	Ministry of Chieftaincy and Culture	13,136,965	1,395,584	-	-	718,016	15,250,566			15,250,566	
27	National Media Commission	2,159,244	-	-	-	-	2,159,244			2,159,244	
28	Ministry of Information	17,821,544	17,301,290	-	-	-	35,122,834			35,122,834	
29	National Development Planning Commission	1,981,176	-	-	-	-	1,981,176			1,981,176	
30	National Labour Commission	863,890	-	-	-	-	863,890			863,890	
	MDAs Total	3,093,132,632	595,700,000	195,069,000	103,800,000	1,528,427,100	5,516,128,732		1,387,316,113	6,903,444,845	86.6%
	Revenue Agencies	203,186,900	-	-	-	-	203,186,900			203,186,900	2.5%
	Utilities	120,000,000	-	-	-	-	120,000,000			120,000,000	1.5%
	Subscription	8,000,000	-	-	-	-	8,000,000			8,000,000	0.1%
	Multi Sectoral	634,501,970	-	-	-	-	634,501,970			634,501,970	8.0%
	Contingency	88,686,498	-	14,243,000	34,500	-	102,963,998			102,963,998	1.3%
	Total	4,147,508,000	595,700,000	209,312,000	103,834,500	1,528,427,100	6,584,781,600		1,387,316,113	7,972,097,713	

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- Chinese Proverb
 - ‘Tell me and I’ll forget
 - Show me and I may remember
 - Involve me and I’ll understand’