DFID Seminar on
Best Practice in Public Expenditure Management

Case Study

MTEF in Malawi and Ghana

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The MTEF in Malawi and Ghana

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1. Introduction

This paper has been commissioned for a DFID seminar on best practice in public expenditure management. It has been prepared by two African practitioners, Seth Anipa and Felix Kaluma, and edited by Elizabeth Muggeridge, who have been involved in the introduction of the Medium Term Expenditure Framework approach in Malawi and Ghana. The paper sets out the rationale for the MTEF in these two countries, how it differed from previous attempts at reform, progress in implementation and problems/risks to the continuation of the process.

A comparison is made between the Malawi and Ghana experiences from which lessons are drawn for both Malawi and Ghana and for other countries introducing the MTEF approach.

2. Background to the Introduction of the MTEF

2.1 Malawi

The 1993 Budget Management Review conducted by the Malawi Government together with the World Bank identified a number of weaknesses in the Malawi Government’s budgeting system. It was observed that it was not clear from the budget what Government expected to achieved in each Ministry and even the overall Government objectives.

Previous attempts at reforming the budget processes focused on the introduction of programme budgeting. Prior to 1985, the Government budget had only been classified on the basis of the type of expenditure and organisation. In 1985, the Government decided to change the budget preparation and presentation system, by defining programmes for each ministry, and showing the budget by those specific programmes. However, once the programme approach was introduced, no follow-up was undertaken to make further improvements.

The 1993 BMR set out a suggested approach to addressing the weaknesses in the budget system and this was followed up with a brief paper prepared by the World Bank with a proposed methodology for the MTEF. Consultants were contracted to support the Government in its introduction under the World Bank funded Institutional Development Programme II (IDPII).

2.2 Ghana

In Ghana the Medium Term Expenditure Framework has been introduced under the Public Financial Management Reform Programme (PUFMARP) launched in July 1995 by the then Minister of Finance. PUFMARP was officially initiated in May 1996 with the setting up of a PUFMARP Secretariat and a Project Management Team (PMT) to coordinate its activities.
PUFMARP is a bold and comprehensive medium term strategic programme aimed at addressing the public financial management issues identified in the Public Expenditure Reviews (PER) of 1993 and 1994. These issues included a weak budgetary framework; lack of proper accounting; ineffective audit; lack of reliable, accurate and timely information for management decision making; ineffective public expenditure monitoring and control; and lack of budget ownership.

The Programme also emerged in part from various piecemeal attempts in the past to try and resolve some of the problems affecting the efficient management of the nation’s resources. Some of the earlier initiatives were:

- the Public Investment Programme (PIP) to deal with issues affecting the Capital Budget;
- the Integrated Personnel and Pay-roll Project (IPPD) to deal with staff costs;
- the Budget Improvement Working Group (BIWIG) to help implement the broad based budget concept (i.e. including donor funds in the Budget, and more recently
- the Expenditure Tracking System (EXTRACON) to monitor expenditures in the Ministries.

These efforts were found to be ad hoc, disjointed, incoherent and incomprehensive. Thus, there was a need to develop an all-embracing programme, which would link all aspects of public financial management together. PUFMARP was therefore conceived from this background and is designed to be a computerized Integrated Financial Management System aimed at addressing these (financial) problems in a comprehensive manner.

The components of PUFMARP ensure that all aspects of financial management are provided for:

- the MTEF which is aimed at addressing the weaknesses in inherent in the budget system
- the Core component of the Budgeting and Public Expenditure Management System (BPEMS) which aims at reforming budget implementation, accounting and reporting, through a computerised platform to run the entire financial management system
- Revenue management
- Cash Management
- Audit
- Human resource and change management
- Fiscal decentralisation

Each of these sub-systems is being designed to interface with the core BPEMS system.
3. MTEF Objectives and Methodology

3.1 Weaknesses in Expenditure Planning

The MTEF has been introduced in response to common problems facing developing countries in the area of budget preparation and management. Some of the major weaknesses to be addressed are as follows:

- Five Year Development Plans and three year Public Sector Investment Programmes, which set out national and sectoral objectives, policies and specific projects, were not linked to the availability of resources through a macroeconomic framework. Some projects in the PSIP therefore were not funded, and the link between policy implementation and the Budget was not established.

- the budget preparation process did not link the achievement of objectives and meeting of targets with the funds required: there was greater emphasis on control of inputs and less on improving performance of the sector through meeting its objectives and targets

- the recurrent budget was prepared on an incremental basis (adding a percentage to last year’s estimates) without reviewing whether the activities being funded should be continued

- activities continued from year to year while resources were declining, therefore some activities which were critical were under funded

- the classification of the budget did not show activities (e.g. provision of extension services) but only types of expenditure (e.g. fuel)

- the investment budget was prepared separately from the recurrent budget, therefore the recurrent costs arising from the investment programmes were not taken care of

- Controlling Officers did not have much autonomy to utilize funds for better performance, rather proper accounting was emphasised more.

3.2 The Approach and Objectives of the MTEF in Malawi and Ghana

3.2.1 Rationale of the MTEF

The Medium Term Expenditure Framework (MTEF) approach is seen as a response to the above problems. It is a process that attempts to improve the decision making process so as to link Government policies, priorities and requirements with limited resources.

These decisions have been identified as improving resource allocation at three levels:

- Macroeconomic balance
- Strategic allocation
- Operational efficiency
The exact scope of the MTEF process varies between countries. In Uganda and South Africa it started as a central agency tool for estimating total resources available and allocating resources between sectors based on government priorities, thus aimed at the first and second objectives of macroeconomic stability and strategic allocation, at the central level. In these countries progress has been made in increasing the political involvement in resource allocation decisions.

The central agency tool had been the focus of original discussions of the MTEF in Malawi and it was the Director of Budget who stressed the need to move to a process that involved questioning Government responsibilities and activities, i.e. more of a performance focus.

Consulting Africa built on this vision of the MTEF, and the process used in Malawi and Ghana has focused on improving the macroeconomic framework and allocations between sectors, as well as introducing an emphasis on performance in the budget.

The approach has been different from previous reforms to public expenditure management in developing countries in that several disciplines have been brought together. It has involved

♦ economic analysis at the macro and inter-sectoral levels
♦ performance management approaches and tools (strategic planning)
♦ performance based budgeting, as used in countries such as New Zealand.

Other key differences in the approach have been

♦ the emphasis on involving a wide range of stakeholders in the design and implementation of the process
♦ emphasising the role of the budget as a management tool
♦ increasing accountability and transparency in the allocation and use of resources
♦ changing the role of the Ministry of Finance from one of detailed control to overseeing progress in performance.

3.2.2 Objectives of the MTEF

The MTEF approach in both Malawi and Ghana started with four primary objectives, namely:

1. Improving macroeconomic balance by developing consistent and realistic estimates of available resources, both domestic and foreign;
2. Restructuring and rationalizing resource allocation so that priority areas receive adequate funding;
3. Improving the basis of the budget by moving away from the incremental approach to estimating the actual costs of Government activities in delivering goods and services and integrating the preparation and presentation of the recurrent and development budgets
4. Introducing a forward or medium term perspective in the planning of policies, expenditures and revenues.
These objectives were to be achieved through a fundamental change to the budget preparation process involving:

- a more strategic approach to the allocation of resources linked to ministries’ objectives

- greater emphasis on the performance and achievement of objectives in sectors

- improvements to the budget classification so that the types of activities being funded could be more clearly seen in the budget documents

- using the activities to be implemented as the basis for estimating both the Recurrent and Development Budgets, thus moving to an activity-based budget approach

- building strong links between all stages in the public financial management cycle: budget preparation, implementation, monitoring, and evaluation.

In Malawi most progress has been made in improving the performance basis of the budget through preparing budgets based on agreed objectives and outputs.

In Ghana the process has focused more on all three levels of improving macroeconomic balance; strategic allocation and operational efficiency. The Ghana approach has also involved providing line ministries with greater responsibility for allocating resources to priority activities in order to encourage greater ownership and effectiveness in the use of the scarce resources.

3.2.3 **Hard Budget Constraints**

In both countries, emphasis has been placed on using the MTEF as a process for determining the available resources and allocating these resources in line with government priorities as demonstrated in the diagram below.

*Key lesson*

Initially there were still expectations that by participating in the MTEF process (particularly using the pilot approach) Ministries would receive additional funds. However experience showed that this was not to be the case, but it would appear that despite that fact, Ministries still believe it is a process that “makes sense”
3.3 The Stages in the Process

The MTEF process is a top down process of determining resource availability and allocating these resources between sectors, and a bottom up process of estimating the actual requirements of implementing policies in each sector. The steps involved in developing an MTEF are the means to bring these processes together, and are demonstrated in the diagram, initially, and described briefly below.

Top Down

Bottom Up

3.3 The Stages in the Process

The MTEF process is a top down process of determining resource availability and allocating these resources between sectors, and a bottom up process of estimating the actual requirements of implementing policies in each sector. The steps involved in developing an MTEF are the means to bring these processes together, and are demonstrated in the diagram, initially, and described briefly below.

Top Down

Bottom Up
Each step involves the following:

**Step One:** projecting resource availability based on the projections of economic growth, domestic revenues and availability of donor funds;

**Step Two:** developing preliminary sectoral ceilings by allocating total resources between sectors on the basis of government priorities. This provides Ministries with an indication of the likely resource available before they start on their detailed costing and should provide some sense of reality. This step may not be necessary in the second year of the process as Ministries can use the two forward years’ indicative figures as the starting point.

**Step Three:** each Ministry estimating requirements for the medium term based on government policies and priorities. Determining sectoral priorities involves a process of sector reviews through which sector ministries:
- review sectoral objectives, policies and strategies
- identify outputs and activities needed to achieve the agreed objectives. This involves consideration of existing activities, i.e. whether they are line with sectoral policies and priorities and whether new activities are required
- estimate the actual costs of activities (Recurrent and Development, Government and donor)
- prioritise activities so as to fit within the sectoral resource ceiling and identify which activities that should continue, those that have to scaled back and those that need to be stopped.

The aim is to indicate trade-offs within sectors by estimating real costs of providing services so that governments can make decisions about the level of services they can afford to provide.

**Step Four:** revisiting sectoral ceilings: after the sector review exercise the medium term sectoral ceilings are reviewed and reallocations between sectors considered on the basis of additional information gathered in the sector reviews. If these exercises reveal that certain objectives cannot be achieved within the sectoral ceilings, reallocations between sectors may be required. This step is not always necessary and it is possible to undertake these kinds of analysis during the finalisation of the Budget Estimates in Step Six.

**Step Five:** Finalising three year estimates: sector ministries make final adjustment to the three year estimates at an aggregate level, i.e. at the Programme and Sub-programme level, with first year’s estimate shown at a detailed level.

**Step Six:** review and finalisation of the estimates: once Ministries have completed their Plans and Estimates, these are reviewed by Ministry of Finance, to assess whether the estimates are consistent with the policies, plan and priorities, and whether the estimates are within the ceilings. The estimates are then
discussed at Budget Hearings and presented to Cabinet and Parliament for discussion and approval. The first year’s estimates are approved while the second and third year’s estimates are indicative.

4. Implementation Approach and Progress in Malawi

4.1 Introduction and Implementation of the Process

The Medium Term Expenditure Framework (MTEF) process was introduced in 1995 and was used in the preparation of the 1996/97 Budget in the four major spending sectors, which represented 40% of the recurrent budget: Agriculture, Education, Health and Works and Supplies. The Police also requested to join the MTEF process. In the first year the process involved developing information on the actual costs of activities as a guide to allocating resources so as to achieve the stated objectives.

During 1996/97, the MTEF was broadened by the inclusion of an additional seven ministries and deepened through the preparation of a Logical Framework setting out the objectives, outputs and activities of each of the 12 Ministries. The process was extended to all Ministries in the preparation of the 1998/99 Budget and followed to some degree in the 1999/2000 Budget.

Two consultants, one external and one local, supported the Government during 1995-1998 in the design and introduction of the process. The process was managed by the Ministry of Finance and implemented in a highly participatory manner. In each of the first three years of implementation, between 30-40 staff from each of the participating Ministries were trained in the various stages of the process and the Ministry of Finance provided follow up support as Ministries finalised the preparation of their Budgets.

However the Budget Division in Malawi has been very understaffed, and there were only three Budget Division staff to manage the process, supported by the Consultants. In early 1999, the Budget Division was expanded with the recruitment of new staff and the transfer of existing staff from the PSIP section of the National Economic Council.

Sector Ministries received additional assistance from sector specific consultants in Health, Education, Agriculture and the Macroeconomic Group was supported by a team from HIID.

4.2 Progress in Implementation

Progress in following the stages described above up to the preparation of the 1999/2000 Budget is described below.

4.2.1 STEP ONE: Development of a Macroeconomic Framework.
Progress: In preparation of the 1996/97 and 1997/98 Budgets the Malawi Government had not developed its own Macroeconomic Framework for estimating resource requirements. The estimates of resource availability were based on those agreed with the International Monetary Fund (IMF) and the World Bank.

A Macro Group was established in 1998, comprising economists from the National Economic Council, the Reserve Bank of Malawi, Data Processing Department, Accountant General’s Department, National Statistical Office and the Treasury with responsibility for the development of the macroeconomic framework. A preliminary macro framework was developed for use in the 1998/99 budget and through further refinements was used to develop the preliminary ceilings for the period 1999/2000-2001/2002 and will remain a feature in the budget process.

4.2.2   STEP TWO: Setting preliminary ceilings

Progress: This is an area where the MTEF has not really functioned. The idea of providing two sets of ceilings was only followed in the first year of implementation, when they were provided to the four pilot ministries. Since then ministries have only been provided with one set of ceilings, as they finalise their estimates, i.e. at Step Four in the above diagram.

4.2.3   STEP THREE: Review of sector/ ministry or department priorities.

Progress in Defining Objectives, Outputs and Activities
In 1995, this step was not covered in detail as most of the pilot Ministries had prepared Policy documents. These were used as the basis for agreeing on the activities necessary to achieve the perceived objectives, which were then costed to estimate the total requirements of each of the sectors.

Since 1996, all Ministries have developed logical frameworks, which indicate their goals, objectives, expected outputs, and the activities necessary to achieve the outputs and objectives.

This was supplemented by a “prioritization” process in the preparation of the 1998/99 and 1999/2000 Budget in which Ministries reviewed their objectives/outputs and activities before developing the estimates for the next three years. The aim was to retain only the crucial activities/ programmes and sub-programmes, and reduce the funds for, or discard low priority programmes/ sub-programmes/ activities.

Progress in Costing of Activities

In 1995, the costing of activities was achieved with some success and improved significantly in 1996 with nearly all of the twelve ministries developing detailed estimates of their activities, thus creating a base of activity costs. All Ministries prepared detailed activity costs in the preparation of the 1998/99 Budget, however the activity costing has focused mainly on recurrent funded activities, with less emphasis on costing
of those activities funded in the Development Budget. Most Ministries have again used some form of activity costing for the preparation of the 1999/2000 Budget.

**Key Lesson**

One of the difficulties of activity costing is that it is very data intensive. It involves large volumes of data that needs to be aggregated and analysed so as to produce a prioritised and integrated Budget.

In order to address this problem, a start was made on the development of a computerised budget preparation programme and some ministries used this programme in the preparation of their 1998/99 estimates.

**Progress in Improvements to the Budget Classification and Integration**

The previous Budget structure did not adequately reflect the activities that Ministries are responsible for. Instead the Budget showed the broad group of activities such as primary education, followed by the cost centre (the location of expenditure) and then the types of expenditures such as traveling expenses without giving any indication of the purpose of traveling.

Improvements have been made to the budget classification in reviewing existing Programmes and through the introduction of sub-programme which indicates the broad areas of activities.

The integration of the Recurrent and Development budgets has not been achieved, although Ministries have been encouraged to plan the recurrent and development budget activities together.

**Key Lesson**

Part of the reason for this has been institutional: Recurrent Budgets are prepared by accounting staff, while the Development Budget is prepared by Planning or Project Implementation Unit staff.

For the first time, the 1999/2000 estimates will be presented together in a complementary single presentation, i.e. side by side in one document.

**4.2.4 STEP FOUR: Determination of sectoral allocations**
The information developed from the sector reviews was used to some extent to develop the annual budget ceilings in the preparation of the 1996/97 and 1997/98 Budgets, but the major guide was the Policy Framework for allocations to priority sectors. There has also been an intention to use the Vision 2020 as a basis for agreement on Government priorities, however this has not happened.

In the preparations for the 1998/99 budget, it was expected that the ceilings would be derived from the activity based costing by ministries. This did not happen because of delays in the Annual Budget preparation process.

4.2.5 **STEP FIVE: Prioritisation and Finalisation of the Budget**

This has been achieved to a limited extent in preparation of the Final Estimates. However, delays in decisions regarding the Budget process meant that Ministries did not have sufficient time to undertake a detailed review of their activities and decide which ones would be scaled down or dropped altogether.

**Key Lesson**

Ministries need to be given sufficient time to undertake detailed prioritisation of activities and budgets. There is need to adhere to the Budget Timetable.

4.3 **Links with Budget Implementation and Management**

The budget classification and presentation developed under the MTEF will lead the implementation and accounting of the budget. Currently the Government is in the process of introducing a computerization of the accounting system, the Integrated Financial Management Information System (IFMIS), under a World Bank financed project. IFMIS will follow the budget classification and presentation that has so far been developed, apart from further management details to be developed for use in ministries.

The MTEF has also defined the objectives and outputs for each organization, which makes it easier to monitor the achievement of objectives as well as the production of specific outputs. This is an area that will have to be further improved on.

4.4 **Links with Other Reforms**

Several public sector reforms have been undertaken by the Government, among which are:

- **Civil Service reform.** This aimed at reducing the size and improving the structure of the civil service to provide a lean and efficient civil service. It had been observed that a high proportion of funds went to finance the salaries of civil servants, rather than to the
provision of services. However, this observation was not tested by reviewing the performance of the civil servants against the achievement of specified objectives, and was limited to reducing the lower cadres of the service. This led to a new approach of assessing the size, and performance of the service through the Strategic Review of Government, detailed Functional Reviews and a Job Evaluation exercise.

1. **Strategic Review.** The review was commissioned to assess the role of each ministry in delivering Government goals and objectives, and recommending the most appropriate organizational structures or a combination of ministries to perform Government functions. It involved highlighting areas of duplication among and within ministries and recommendations on ways of streamlining functions through merger of Departments. In addition, it involved identifying functions that did no have to be performed by Government, which could be dropped, privatized or contracted out. The process resulted in the merger of a number of Ministries and transfer of functions between Ministries.

2. **Functional Reviews.** These are currently underway and involve the detailed examination of each ministry to assess work loads, the staff required to perform the functions, and recommend appropriate mix of personnel to produce the necessary services. This is expected to lead to rationalization of staff in ministries, the proper departmental/divisional set up (structural changes), and recommendations on contracting out or privatizing some services.

- **Decentralization.** The Malawi Government, like many African Governments, is committed to a fundamental change to the delivery of services from the central Government to Local Authorities. The full scope and approach to be used is still in the process of being worked out, although an Act to support the decentralization process has been enacted.

The current position with regard to the links between the MTEF and other reforms is not satisfactory.

The Budget Division has not utilized the findings from the Functional Reviews, which would assist in deciding on Ministries’ objectives and activities. The logical frameworks developed under the MTEF with their associated objectives, outputs, activities, programmes and sub-programmes were used in the Strategic Review exercise, but have not been utilized by the team carrying out the detailed Functional Reviews.

The recommendations of a Change Management Unit on contracting out, or privatizing are not captured in Ministries’ planned activities, which should have resulted in reduction in their expenditure requirements.

In addition, the various public sector reforms have not been developed into a coherent programme of reforms, as has been the case in Ghana. Thus the Malawi Government has not made an explicit decision to focus on better performance and service delivery, with the result that the separate reform efforts may be aimed at differing objectives.
Key Lesson

A more strategic, performance based approach to the Budget is all the more likely to succeed if it is based on a comprehensive programme of reforms, with high level political support.

4.5 Major Achievements to Date

In pursuance of the four areas of focus of the MTEF, the process so far has achieved the following:

- **Improved macroeconomic balance:** while the MTEF process itself cannot be said to have led to improved an macroeconomic situation, since 1995 the Government has been able to reduce the deficit from 15% of GDP in 1994/95 to 5.2% in 1995/9, an estimated 5.0% for 1998/99 and projected 4% for 1999/2000.

- **Rationalization of resource allocation:** this was to take place at two levels: between and within sectors. In terms of inter-sectoral allocations, the Malawi Government already allocates a high proportion of funds to the priority sectors. There was some reallocation of resources among Ministries, following the Strategic Review when Ministries were merged and functions transferred.

  It is within sectors that most attention has been focused, through the definition and costing of priority activities. However, there has been limited commitment to using this process for reallocating resources both within Ministries and by Government as a whole.

- **Improved budgeting:** the approach adopted meant that a wide number of people were trained in defining their priorities and costing their activities and this has improved the quality of budget estimates and ability of staff from all departments. It also had a positive effect on developing greater understanding and commitment to the agreed estimates and thus true ownership of the budgeting process. By introducing activity based budgeting, any reductions in the overall allocation should be reflected against actual activities being dropped, rather than reduced funding of all activities and thus non-achievement of any specific outputs/objectives.

  In addition the development of the Logical Framework for each ministry means that activities and Budgets are more focused on achieving the ministry’s objectives and producing the agreed outputs. The introduction of the sub-programme level in the budget classification for all ministries has also assisted in improved analysis of the Budget.

  New budget presentation options have been developed with the Ministry of Finance. The computerised budgeting programme to assist with the data capture, analysis and budget preparation and presentation, is currently being introduced by Consulting
Africa, and this is expected to lead to improved budget preparation (producing integrated budgets that include Government and donor funds) and in the presentation of the Budget Estimates.

- **Move towards forward budgeting**: the aim was to develop three year estimates for both the recurrent and development budgets. To some extent this was achieved for some ministries who prepared the initial estimates for three years, but due to insufficient time, not all ministries have prepared three year estimates within their ceilings. The 1999/2000 ceilings do include two forward year ceilings, for 2000/01 and 2001/02.

### 4.6 What remains to be done

As explained above, what has been achieved is that the fundamentals of the MTEF approach at the macroeconomic and sector levels have been put in place. What is required is to deepen the process further and ensure that the information generated through the process is actually used to reallocate resources in line with priorities. This can be achieved through:

- further training of all ministries so that they are able to produce three year, integrated budgets, that include all donor resources, and have been prioritised. Thus only priority activities would be included in the Budget.

- Making sure that the outputs of the sector processes are then used by politicians in the approval and implementation of the Budget. Malawi is in the process of a General Election, and once a new Cabinet is sworn in, it would be important to ensure that members understand the MTEF process, and especially their role in its implementation. Notable among these is to understand that the agreed objectives for a ministry are linked to the provision at the various services. They should therefore respect the provisions if the objectives are to be achieved.

- The senior management of the central agencies needs to have more exposure to the principles and objectives of the MTEF process, so as to develop greater commitment and participation in the planning and implementation of the MTEF process.

- The Budget Division will need further strengthening in terms of an appropriate structure and training of staff so that they can provide effective support to Ministries in ensuring that the logic of the Logical Framework approach and activity costing continues to be the basis of the budget.

- Greater attention needs to be paid to involving donors in the process, both in terms of increasing the coverage of donor funds in the Budget, and in discussions with donors to reach agreement on the priorities and funding requirements as developed through the MTEF process.
• The computerised budgeting programme will be introduced to all ministries as they
develop reliable activity costs, and this database will enable the preparation and
prioritization of their budgets.

5. Implementation Approach and Progress in Ghana

5.1 The Ghana Approach

In Ghana the MTEF was similar to that used in Malawi, apart from some minor details of
the technical approach in the areas of the Strategic Plan and the budget classification.
Where it differed was in the implementation approach used: it involved a much larger
group of trainers and was introduced in all sector ministries in the first year of
implementation.

The process also started with the development of a macroeconomic framework to
estimate resource availability over a three year period. The available resources were then
divided between sectors based on the broad role of Government in each sector and
provided to Cabinet for discussion and approval. These ceilings were provided to all
Ministries before they started on the preparation of their Strategic Plans and included
both recurrent and development funds together, as well as both Government of Ghana
and donor resources.

Thus Ministries started by considering all resources together, distinct from the previous
approach in which Recurrent and Development ceilings were provided separately, and a
large proportion of donor funds were excluded from their resource envelopes.

In the sector review process, instead of using the Logical Framework, all Ministries
produced a Strategic Plan in which they examined their current situation through an
environmental scan and SWOT (Strengths, Weaknesses, Opportunities and Threats)
analysis. They also defined their Mission statement, objectives; outputs and activities,
and finally the inputs required to implement the agreed activities. As in Malawi,
Ministries then costed the inputs as the basis for producing three year, integrated budgets
including both donor and Government of Ghana resources.

5.2 The Introduction and Implementation of the Process

The MTEF concept was suggested by the World Bank, as a way of introducing a more
strategic approach to expenditure planning. During the World Bank appraisal for
PUFMARP project FIMTAP, a detailed report was prepared based on the experience of
the MTEF approach in Malawi by the Consultants who had supported the Malawi
Government in the introduction of the MTEF.
Thus the Ghana approach built on the Malawi experience which was designed in detail through a process of consultations with key stakeholders, organised by the PUFMARP Project Management Team. The principal stakeholders in the process are:

- The Budget Division and Research Division (responsible for macroeconomic policy and analysis) of the Ministry of Finance
- The National Development Planning Commission
- The Controller and Accountant General’s Department
- Head of the Civil Service
- Bank of Ghana
- Ministries, Departments and Agencies

Some preliminary work started in 1997, with the process starting in earnest in 1998. The starting point was a change management workshop held in early 1998 for the Central Implementation Team (CIT) which comprises senior directors from the Budget Division, Ministry of Finance, supported by the Consultants and Project Management Team.

The two major components of the process (the planning and Budget process and the macroeconomic policy analysis and modelling) were designed by the key stakeholders at a series of workshops in early 1998. These designs formed the basis for the work plan for 1998 and the content of a draft MTEF Technical Guide and User Manual.

**Key Lesson**

Their involvement in the design process ensured that the process met the needs of the Ghanaian situation, built on previous work (the wheel was not re-invented)

**Macroeconomic Framework:** a Macro Group has been established with members from the Research Division, Budget Division, the revenue agencies, the Bank of Ghana, the Statistical Services, the National Development Planning Commission. The Consultants have assisted the Group to begin the development of a simple spreadsheet model, which is to be used in the development of the 2000/2002 ceilings.

**Strategic Plan and Estimates:** following the design phase, training of trainers workshops were then held for teams of civil servants from the key central agencies (Finance, Head of Civil Service, Planning Commission, National Institutional Renewal Programme (NIRP) and the State Enterprise Commission) who were trained as facilitators to assist Ministries in the preparation of Strategic Plans. Training materials were produced by the Consultants based on the agreed approach to guide them in the facilitation process. DFID agreed to pay these facilitators as local consultants, an approach that been used in their funding of Civil Service Improvement Programme (CSPIP).
These facilitators were divided into four groups covering the four broad sectors:

- Administration;
- Economic Services;
- Social Services;
- Public Safety

All Ministries attended Strategic Planning workshops at which they were able to produce their first draft Strategic Plan. Ministries’ response was sufficiently enthusiastic to the MTEF process that the Ministry of Finance decided to extend the next step in the process (activity costing) to all Ministries. Initially the plan had been to restrict the costing part of the process to three pilot ministries, Health, Roads and Transport, and Education. Thus all Ministries were trained in how to cost their activities to produce three year estimates and as a result all Ministries prepared their 1999 expenditure estimates in the MTEF format.

**Key Lesson**

Be flexible and respond to people’s reactions during implementation.

**Budget Classification:** the extension of the activity costing to all Ministries was accompanied by changes to the budget classification, moving from the previous nine items of expenditure, to four broad items linked to the types of activities identified in the Strategic Plan. These are:

- **personnel** and **administration**, which are treated as overhead costs
- **service** and **investment costs**, which are linked to the objectives, agreed in the Strategic Plan.

This involved integrating the Recurrent and Development budgets and replacing the PIP with the new budget format that presents Ministries estimates for a three year period, by objectives, in an integrated manner (both former recurrent and development estimates), and including donor resources.

**Revisions to Sectoral Ceilings:** the intention had been to hold Policy Hearings prior to the finalisation of the ceilings, but as the workload increased significantly with the extension of the activity costing to all Ministries, there was not sufficient time to hold these Hearings. This meant that Ministries continued into the completion of their plans and estimates with the final decisions on allocation of resources being made in the finalisation of the Budget.

The preparation of the 2000 Budget is to start with a Policy Review process as an input into the determination of the sectoral ceilings.
5.3 **Links with Budget Implementation and Management**

The MTEF has a direct link with the BPEMS component of PUFMAR, which is centred on the implementation and accounting aspect of the budget. The introduction of BPEMS has been delayed because of negotiations with donors and the Government concerning its scope and funding. Therefore steps have been put in place to prepare and implement the budget using initially spreadsheets, with consideration being given to the use of a costing software developed by the Consultants. These are seen as an interim stage and BPEMS will be customised to match the new budget process and eventually take over the whole budget preparation and implementation processes.

It was recognized that ineffective budget implementation was a real threat to the MTEF process: if the priorities and performance levels defined in the Budget preparation phase are not carried over into implementation, monitoring and evaluation. Therefore positive changes in the budget implementation, monitoring and evaluation processes are being introduced. For example new rules for budget implementation have been developed to ensure that the principles of the MTEF are followed in, not only the budget preparation, but also the budget implementation within the existing legal framework.

Also the changes to the budget classification have been extended to the accounting process and chart of accounts. The previous nine digits have been expanded to include additional codes for objectives, district specification (in addition to the existing regional codes) and funding institutions (i.e. donor organisations).

Preliminary cash management processes have also been introduced under the MTEF, with all Ministries trained in the preparation of quarterly work plans and expenditure requirement forecasts. These cash flow plans are to be used by the Ministry of Finance in the preparation of cash flow plans for the determination of expenditure releases and borrowing requirements.

**Key Lesson**

Ensure that improvements to Budget preparation are carried over into implementation, monitoring and evaluation.

5.4 **Links with Other Reforms**

It should be mentioned that the concept of activity costing was not new to some Ministries, including Ministry of Health, Ministry of Education, and the Ministry of Roads and Transport. For example the Ministry of Education has prepared activity based budgets since 1990 and has been introducing a performance basis to the budget through the internal budget books and performance agreements with Cost Centre managers.
Similarly the Ministry of Health had started on a process of activity based budgeting at the district level and the preparation of a Five Year Programme of Work (FYPW), which has formed the basis of donor support to the Ministry of Health. There was some initial resistance to the MTEF approach in the Ministries of Health and Education, only because they believed that their approach already covered the same elements as the MTEF. However, because the preparation of the Strategic Plan was highly participatory, the Ministry was able to see the benefits of concretising their ongoing work in the MTEF process.

The MTEF is based on the GHANA VISION 2020 and the Medium Term Development Plan (MTDP) and is linked to all other public sector reforms currently taking place in the country as well as other PUFMARP components. Thus the MTEF is linked to related reform initiatives which have also stressed increasing the performance and effectiveness of the public administration system, such as

- the National Institutional Renewal Programme (NIRP) which coordinates the reform efforts;
- the Civil Service Performance Improvement Programme through which all Ministries have prepared Performance Improvement Plans;
- the State Enterprise Commission which has been contracted to restructure the Subvented Agencies;
- Fiscal Decentralisation programme which started in early 1999.

Key Lesson

Build on previous reform efforts, including sector wide approaches in sector ministries. Encourage ministries and donors to see complementarity of MTEF and SIPs, and Planning Commissions to see Vision 2020 documents as the starting point for an MTEF.

NIRP is the umbrella institution established to coordinate the reform initiatives and provide strategic leadership through appropriate management interventions that maximises consensus building and national ownership for accelerating the attainment of Ghana’s Vision 2020. All the reform efforts are aimed at the same objectives of improving the efficiency and effectiveness of the public sector; i.e. achieving greater results or improved performance with scarce resources.

5.5 Major Achievements to Date

The major achievement in Ghana is that in the first year of implementation all Ministries were able to produce a three year, integrated, broad based (i.e. Government of Ghana and donor) budget, based on agreed objectives, outputs and activities. This has led to changes in the way ministries prepare their budget, by emphasising their reason for existence and the outputs (i.e. performance) they are aiming to produce.
The process has reached a wide number of people in all Ministries and a sensitisation workshop was organised for the Finance Committee of Parliament as well as heads of all other Parliamentary Committees.

Some of the other achievements include:
1. Increasing the coverage of donor funds in the Budget

2. Changing the role of the Ministry of Finance, from one of detailed control of line items to review and monitoring of whether Ministries allocate and use their resources in line with priorities and in the most cost effective and efficient manner

3. The integration of the Recurrent and Development Budgets which is to be translated to the merger of the Budget Division (responsible for the Recurrent Budget and the Investment Policy Analysis Division (responsible for the former Development Budget)

4. Increased emphasis on the achievement of objectives and production of outputs, i.e. on performance.

5. Devolving responsibility for preparation and management of the Budget down to the Cost Centre level, a departure from previous practice whereby Budgets were prepared by accounting staff.

A recent DFID review of the MTEF process undertaken by a team local and foreign experts found that the implementation of the MTEF in Ghana to be “extraordinary”.

5.6 What remains to be done

The MTEF process has been reviewed and is to be deepened in subsequent years. The User Manual and Technical Guide are to be reviewed and updated. Ministries are to be trained in both the preparatory and implementation aspects of the process.

Since Parliament is the appropriate authority for the budget, a workshop will be organised for all members to educate them on the new budget system. It is expected that 1999 will see significant progress in the development of the macroeconomic framework as the basis for the preparation of the revenue and expenditure estimates.

The Government is aware that the success story of the MTEF in Ghana will not depend only on the broadening and deepening of the 1998 process. Efforts are underway to extend the MTEF process and other PUFMARPs components to other key issues which include:

- Improving predictability of flow of budgeted resources to Ministries and front line service deliverers through the establishment of improved cash management procedures and capacities
- Increasing the coverage of donor funds and involvement of the International Economic Relations Division and the donor community in the MTEF process

- Introducing new monitoring and evaluation procedures for both expenditures and outputs

- Including the concept of outcomes in the performance basis of the budget: all Ministries will be required to identify and agree on their outcomes as well as their outputs in the preparation of the next budget

- Linking the MTEF process with fiscal decentralisation.

6. Lessons to be learnt for Malawi, Ghana and Other Countries

6.1 Comparison of the Malawi and Ghana Experience

A comparison of the Malawi and Ghana experience can provide a useful insight and starting point for the lessons to be learnt for Malawi and Ghana and for other countries. As the technical details of the approach have been very similar, comparisons are drawn on issues of involvement, sequencing and links with other reforms.

6.1.1 Political Commitment to the Process

- in Malawi, although the MTEF has been mentioned in the budget speeches and at donors meetings, there has never been a conscious effort for the political leadership to indicate that it has to be followed by all at a public forum. The Cabinet was not sufficiently consulted initially, although this is now being seriously addressed. The Ministry of Finance is to take a lead in this exercise.

- in Ghana the political leadership has demonstrated a high degree of political commitment to the MTEF process, particularly in the process of budget preparation. The true test of this commitment will be seen in the degree to which the decisions taken in the budget preparation process are maintained in budget implementation.

6.1.2 Involvement of Stakeholders in Design and Implementation

- in Malawi the process was managed by a small group within the Budget Division, which as noted above, has limited capacity in terms of numbers of staff. The senior management of the Ministry of Finance has not always been fully involved in leading the MTEF process, because of constant pressures on their day to day work, and insufficient staffing.

As a result budget guidelines have been delayed and the outputs of the MTEF process have not always been used in final budget allocation decisions. With the recent
increased intake in the Budget Division, there should be greater capacity to manage and make use of the MTEF process.

In addition, the apparent non-participation of the heads of ministries in the process, the middle management/ professional cadre was the focus of the MTEF in Malawi. The major benefit is that this cadre is the likely successor to leadership and will therefore easily implement the process. By not having the participation of heads of ministries, the immediate internalization has faced problems, and it was only in the prioritization exercise in April/ May, 1998 that they became involved, noticeably. This may largely be attributed to the low key approach taken by the Cabinet. In the latest prioritization exercise, the Minister of Finance and the Cabinet Committee on the Economy took a lead and ensured the participation of the heads of ministries/ departments. This new trend is encouraging and if continued, will result in the internalization of the process.

• by contrast in Ghana, there has been a large number and range of stakeholders involved in the design and implementation of the MTEF process, from the central management agencies, to the sector ministries and the other reform programmes. In addition, and probably one of the most important factors, there has been very active leadership, understanding of and commitment to the MTEF process, from the Minister to the Director of Budget. The Director of Budget attends all design and planning workshops, and these are often attended by the Chief Director and the Deputy Minister of Finance.

6.1.3 Piloting versus the “Big Bang” approach
• the process was piloted in Malawi over a three year period, which had the advantage of time to develop an appropriate approach and learn from the experience.

• The process was introduced in all Ministries in the first year in Ghana taking advantage of the approach developed in Malawi. The CIT identified the following advantages and disadvantages: the Pros were that a standardised format was developed for all MDAs; it enhanced the ownership of budgets; it avoided the complexity of running two budgets; and Cons were that it resulted in a lack of depth and Budget Committees were stretched1.

There is no “right” way of approaching whether to pilot or not to pilot. It will depend on the level of commitment to the process and the capacity to implement it. If these are in place then it introducing the new approach across Government will make it clear that everyone has to follow this approach.

6.1.4 The Importance of Change Management
• In the Malawi experience, there was no prior preparation of the people to embrace the change. As a result, there was resistance, which manifested itself in how workshops were attended, especially the level/ grades. In some ministries where the leadership

1 Report of the Central Implementation Team, MTEF Internal Review, February 1999
was ready, the introduction of the MTEF was rapid. Change Management should be part of the introduction of the MTEF.

- In Ghana there were some explicit change management activities as part of the process, and the way in which the process was introduced followed the principles of effective change management: i.e. involving the key stakeholders, agreement on the need for change, etc.

6.1.5 **Links to Budget Implementation Issues**

- In Malawi there have been limited linkages between budget preparation and implementation processes. This has been addressed through the establishment of a Budget Management Committee in early 1999 with responsibility for the overall management of the budget systems and allocations between and within sectors. In addition a core group with responsibility for revising the Budget Classification and continuing the implementation of the MTEF process has also been established. Both of which have members from both the Treasury and the Accountant General’s Department.

- In Ghana these links have been recognised as being key to the success of the MTEF, and the good working relationship between the Budget Division and Controller and Accountant General, has enabled the extension of the focus on performance and activities in the budget preparation process into issues of budget implementation. Facilitators from the Budget Division, the CAGD and the Audit Service were responsible for training all Ministries in the new budget implementation rules and cash flow planning.

Ineffective cash management remains a major risk to the process in both countries which could undermine the predictability in budgeted flows needed for continued commitment to the process on the part of line ministries.

6.1.6 **Links to other Public Sector Reforms**

- In Malawi, the only other major reform effort has been in the restructuring of Government through the Strategic Review of Government and the detailed Functional Reviews. The links with these reforms were fairly strong and need further strengthening by ensuring the co-ordination of the various activities. In addition, it would be important to develop an integrated programme for the reforms in which common objectives and clear inter-linkages would be defined.

- In Ghana, there is a strong link with other reform initiatives, partly through the involvement of the other reform programmes as MTEF facilitators, but also through the work of the National Oversight Committee of NIRP, which coordinates all reform efforts. In a recent article in the PUFMARP Newsletter, the Head of the Civil Service commented on the links between the Civil Service Performance Improvement Programme (CSPIP) and the MTEF, which have been concretised through the inclusion of MTEF outputs in Chief Directors’ Performance Contracts.
6.1.7 Involvement of Donors

- In Malawi the donor community, particularly the World Bank and IMF have played a very active role in the design and implementation of the MTEF process. It would seem they are disappointed with the impact of the MTEF process, in that it has not led to the preparation of prioritised integrated budgets.

- the donor community in Ghana has less of an active role in the day to day design of the process and has left the Government to define the details of the approach. In general the donor community appears to be satisfied with the MTEF approach.

6.2 Lessons to be learnt

Hopefully other countries will be interested to learn from the experience of Malawi and Ghana of the MTEF. Some of the questions they may ask include:

- What would an effective MTEF look like?
- How long would it take to reach that point?
- Is the Malawi and Ghana approach appropriate for all countries?
- What are the preconditions for the success of the process, if any?
- What factors/issues should be addressed in the introduction and implementation of the approach?

6.2.1 The Characteristics of Effective MTEF

- Scarce resources would be allocated to priority areas, both Government and donor
- Sector ministries would have some predictability in the flow of resources
- Sector ministries would plan all their activities (Recurrent and Development, Government and donor) on the basis of achieving agreed objectives and targets
- The priorities set in Budget preparation would be followed through in the implementation of the Budget
- There would be increased accountability (managers would be held responsible for the performance of their organisations) and increased transparency (it would be possible to see where funds are being used and the impact of these expenditures. This would apply to both Government and donor resources.
- Donor negotiations and disbursement procedures would be integrated into Government processes and timetables.

6.2.2 Time-scale

Depending on a country’s Budget processes, the above improvements could be realized in a period of two to three years, depending of course, on the commitment to the changes.

6.2.3 Appropriate Approach

While it is dangerous to develop “blueprints” for reforms, the elements of the MTEF approach described in this Paper, would be appropriate for all countries. It would be suitable for Governments with Anglophone, Francophone or Lusophone systems, for Governments of any political persuasion (it would be a useful approach even in a centrally planned economy) and for central and local Governments. What would prevent
the success of the approach would be the lack of commitment and the other factors set out below.

6.2.4 **Success factors (Pre-conditions)**

The factors that will contribute to the success of the MTEF are set out below, based on our experience in Malawi and Ghana. However, if they are all not in place, one would not have to delay reforms, but instead to focus on putting them in place. One of the most important factors will be commitment to using the process for reform, at all levels.

If it is not possible to develop political commitment from the outset, one option is to put in place the process and then, having developed information on the costs of policy in each sector, demonstrate to politicians and the public the need for reallocation of resources and improvements in performance.

Based on the experience of the MTEF in Malawi and Ghana, the following factors will play a large part in the success of the approach:

♦ **There is need for demonstrated political will at the highest level.** As a change that will result in the transformation of ministries’ functions, there is a need for commitment from the highest level with Governments to implement the reallocation of resources and functions.

♦ **Stakeholders need to be involved in the design, introduction and implementation of the process.** The participatory approach used in Malawi and Ghana allows as many people as possible to participate and appreciate the process. What was different in Ghana was that more senior officials were involved in the process. Training of local consultants/facilitators from within the Government has had a cascading effect and embedded the capacity and enthusiasm for the MTEF with the Ghana Government.

♦ **Expectations need to be managed:** the MTEF should not be seen as a means for providing additional resources to sector ministries. It is a process for assisting Governments to allocate scarce resource between competing demands. It will only be really effective if it is used at all levels to make reallocations to priority areas both in the planning and implementation stages of the Budget.

♦ **Effective team building and working relationships between Government and consultants** is a necessary ingredient, as demonstrated by the team spirit and oneness of purpose of the CIT and consultants in Ghana.

♦ **The experience and lessons of previous reforms needs to be built upon** involving those who were involved in those reforms. In Ghana the experience of the previous ad hoc reforms was the starting point for the more integrated approach, and the people involved in the MTEF are those who were involved in the previous reforms.
♦ **The central agencies**, particularly the Ministry of Finance need to have **sufficient capacity** to manage the process.

♦ **Budget preparation process needs to be firmly linked to budget implementation, monitoring, reporting and evaluation.**

♦ There is need to link the MTEF process to **other public reform programmes** taking place to ensure there is synergy in the implementation of all the changes.

♦ An effective MTEF means a **change in the behavior of the Ministry of Finance**, i.e. there is need for more autonomy to the Ministries in the use of resources.

♦ The **roles of Parliament and the civil service need to be clearly defined** to avoid conflicting advice from the latter and ensuring there is proper consultations with the former.

♦ Finally, and most importantly, the Ministry of Finance, its Ministers, Chief Director (Principal Secretary) and Director of Budget **need to be at the forefront of the change**. The commitment and day to day involvement and leadership of the senior management of the Ministry of Finance is probably the greatest contributing factor in the success of the MTEF process in Ghana.

7. **Conclusions**

7.1 **Benefits of the MTEF process**

The MTEF process has several advantages and addresses the issue of effective allocation of scarce resources to priority activities, if it has the bottom-up approach. Some of the advantages are:-

- Cabinet, Parliament, Principal Secretaries/Chief Directors have increased and better information on the cost of activities they perform and can therefore make informed decisions on what they can continue with or discard

- There is a more transparent method of allocating resources between and within sectors

- With three year resources envelopes, it is possible to schedule activities over years against known resource ceilings

- The involvement of managers in the budget preparation process is likely to improve their awareness of the scarcity of resources and ensure greater effectiveness in the use of the resources.

- The process can provide the kind of analysis and information to improve donor coordination and act as a basis for negotiations with donors on a costed set of priority activities.
7.2 **Difficulties of the MTEF process**

The MTEF process is time consuming initially, it requires detailed information on costs which need detailed analysis. The availability of a database capable of handling the initial raw information for subsequent analysis, and presentation of several formats is a very distinct advantage.

Participatory approaches are more time consuming and are costly, however if this is compared with more traditional approaches of consultants arriving with “blue-prints”, the participatory approach will be more cost effective.

It is a fundamental change, and there will always be resistance to change from some. Therefore change management techniques should be incorporated in its introduction.

7.3 **Building Capacity**

The approach used in Malawi and Ghana was based on the assumption that there is already capacity in Governments. Previous budgeting systems meant that there was limited demand for it to be used effectively. Participatory approaches therefore, not only build ownership and commitment, they encourage people to use their latent capacity to better effect.

Therefore capacity building needs to focus on:
- Using existing capacity to improve current systems
- Putting in place effective systems that create the demand for the capacity to be developed
- Using “action learning” or “learning by doing” approaches, so that people experience the new processes as they learn
- Using civil servants as facilitators or trainers: they will have a better understanding of the issues and therefore will be more credible in marketing the new approach to their colleagues
- Building problem solving skills so that the change becomes a continuous process rather than a once off change related to a project.

While this approach can be used through a “project”, it will also be important to involve local training institutions so that they can take over some of the training needs in the longer term.

7.4 **Role of donors**

It is important to ensure that during the process, the donors are kept abreast, and allowed to contribute. The process involves a change in how donor funds are budgeted and accounted for, and since most of donors have set procedures for accounting for their funds, any changes should be ironed out before the implementation of the changes.
In both Malawi and Ghana, donors were briefed of the developments in the MTEF process. However, their full participation was limited. As both countries move towards integrating donor funds into the budget, they will have to be fully consulted, as the budgeting and accounting systems will need to be altered.

Donors can also play an important role in encouraging Governments in the introduction of a wide-ranging change to the way in which Government resources are budgeted. Donors’ positive attitude can mean success for the MTEF and the opposite is true, if there is a difference of opinion or understanding.

7.5 Role of Consultants

The role of Consultants in both the Malawi and Ghana processes was that of introducing new ideas, and facilitating the development of the MTEF by the civil servants themselves. Arrangements for meetings, workshops, seminars and any other training were undertaken by civil servants in the case of Malawi, and the Project Management Team in the case of Ghana. The role of the Consultants was merely to assist.

Indeed, Consultants should not take a lead in developing the process but rather introduce options/ideas from other countries and then encourage the owners to develop ideas further for adoption. This strengthens the ownership of the MTEF, while also ensuring that the valuable pool of knowledge within Governments is put to use.

In a nutshell, the role of Consultants should be to facilitate all aspects of the process: technical, institutional, and managing the change. This needs to focus on building learning skills through which Governments would have the capacity to review and improve public expenditure systems on a continuous basis.