

An Overview of Medium Term Expenditure Framework.



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What is a Govt. Budget?

- A statement of a government's estimated receipts and expenditure for a particular period (normally a year for an annual budget and three years for a medium-term budget).
- An economic and financial management instrument for allocating resources in order to achieve stated objectives.
- A government budget is the financial mirror of government policies.

What is govt. budget about?

General consensus is that budget is about how it affects:

a) macroeconomic performance;

b) allocation of resources; and

c) efficiency and effectiveness of resource use.

What is govt. budget about continued....

Thus the broad function of budgeting that are competing for attention are:

- a) control of public resources,
- b) planning for the future allocation of resources,
- c) management of resources.

What is govt. budget about continued....

- A budget system relies on:
- **Estimates:** Financial estimates for a specified period to determine:
 - *What government expects to receive in financial terms (receipts)*
 - *What government plans to implement in financial terms (expenditure)*
 - *What is to be accomplished with the financial resources available.*

What is govt. budget about continued....

■ **Controls:** Controls to check:

- *How well government has discharged its responsibilities in managing finances and resources*
- *What has been accomplished with the revenue projected.*

Lessons from previous budget reforms

- Right concepts, wrong implementation,
- Success is possible with:
 - *strong political backing,*
 - *a program of training,*
 - ***gradual*** *introduction of the system,*
 - *complementary reforms that would encourage performance.*

Way Forward

- Address the interests of the full range of stakeholders who are affected by the performance of the budget,
- Engage stakeholders such as politicians to take performance seriously.
- Promote transparency and accountability in the process of simultaneously addressing:
 - *control of public resources,*
 - *planning for future allocation of resources,*
and
 - *management of resources*

What is medium term expenditure framework (MTEF)?

MTEF is a multi-year (3 years) budget structure with the following components:

- a. a top-down estimate of aggregate resources available for public spending;*
- b. bottom-up costed sector programs;*
- c. reconciliation of needs with resource constraints for sectoral resource allocation;*
- d. ensuring that budget execution reflects agreed plans.*

New Insights

- Three new insights into what goes into a well-performing medium term budget system.
 1. The realization that the budget has an impact on three levels of public sector outcomes:
 - I. aggregate fiscal discipline;*
 - II. resource allocation and use based on strategic priorities; and*
 - III. efficiency and effectiveness of programs and service delivery*

New Insights.....

2. *The quality of outcomes of reform initiatives is greatly influenced by **institutional arrangements**, usually the rules of the game - both formal and informal.*

■ Underlying this is the premise that:

a) *resource allocation is fundamentally political, and*

b) *budgeting plays a key role in disciplining decision making at all levels from public officials to the political class.*

New Insights.....

3. *The budget will only function effectively on the three levels identified above if:*

- decision making and management systems and processes are performance oriented.

Without the support of non-budgetary institutions budget reforms will not automatically lead to better budgetary outcomes.

New Insights.....

Too often, the budget is seen as a process unto itself, but it is an integral part of a broader set of governing, institutional and management arrangements.

- The achievement of Level I Outcomes (Aggregate Fiscal Discipline) depends largely on the budget process, system and directly related institutional arrangements.
- However, achievements of Level II and Level III Outcomes depend on several systems and processes, in which the budget is only one, all of which need to be pulling in the direction of better performance.

Why develop MTEF?

1. To facilitate political decision making process over development priorities and allocation of scarce public resources consistent with those priorities,
 - promote consultation and debate on policy issues;
 - promote transparency and accountability;
 - promote decision making that is underpinned by resource availability;
 - help manage and sequence the process for policy considerations by Cabinet.

why develop MTEF continued...

2. To develop cooperative governance,
3. To improve the efficiency of the public sector,
4. To create a more predictable environment within which public sector organizations could raise the quality of their services to citizens.

General principles of MTEF....

- a) There must be TRUST,
- b) Should be a means to an end (not too cumbersome and elaborate) to serve as a tool for decision makers over resource allocation and to inform the budget process,
- c) Involves high level political support with open decision making about policy priorities to achieve necessary changes,
- d) A way of adopting a new approach and way of working towards perceived benefits.

General principles of MTEF continued...

- e. Expenditure ceilings must be realistic and stable;
- f. Programs must be prioritised with most important ones implemented first;
- g. Robust and realistic analysis of priorities between and within sectors and making tough choices over what can be afforded.

General principles of MTEF continued...

- h) Performance indicators and targets should be provide a bridge to link resources and results;
- i) Efficiency measures should result in savings that can be reallocated for provision of higher priority goods and services;
- j) Synchronised with public expenditure management calendar and critically the Annual Budget cycle.

Major benefits of MTEF...:

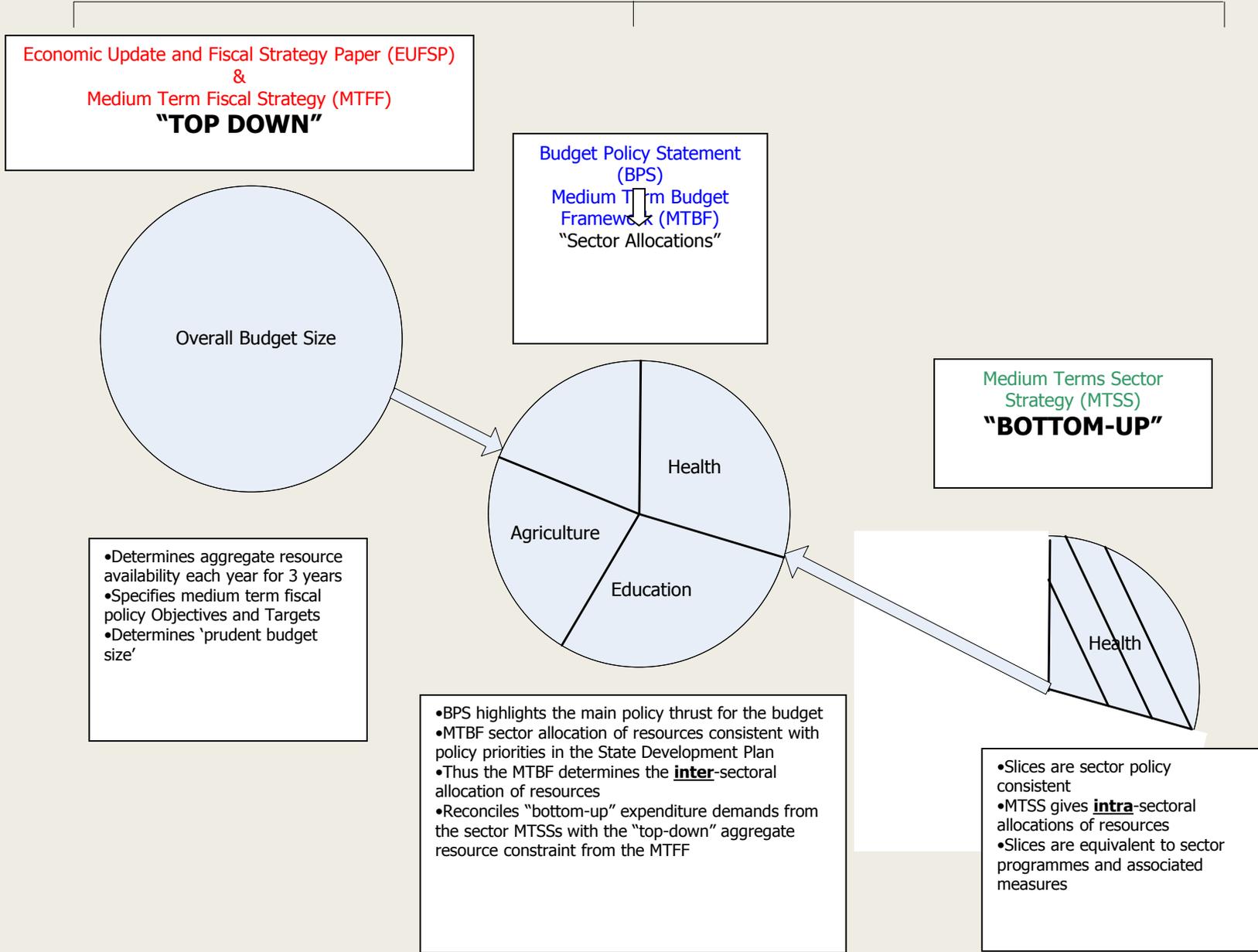
- a) Spending allocations are consistent with leadership's policy priorities i.e. a policy driven budget process;
- b) Integrates, to large extent policy, planning and budgeting process;
- c) It consolidates spending and cuts waste through prioritisation within budget constraints;
- d) Managers have higher degree of confidence in budgeting because funding is generally predictable.

Components of MTEF

The MTEF process itself can be broken down into two components:

- ‘Top-Down’
 - kick starts the budget preparation process and comprises of two key stages –
 - a.) *forecast of the overall resource envelope (Fiscal Framework), and*
 - b.) *dividing the envelope by sector or MDA.*
- ‘Bottom-Up’
 - how particular units or groups of units of government plan to deliver evidence based outputs, within the limitation of available resources in line with the overall policy priorities.

COMPREHENSIVE MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)



Components of MTEF.....

'Top-Down' Component

- The 'top-down' component helps to strengthen budgeting in compliance with key requirements of fiscal responsibility legislation by assisting governments in achieving the following four main key objectives:
 - I. Overall, better linkage established between policy, planning and budgeting;
 - II. Improved aggregate fiscal discipline:
 - *budget size is consistent with macroeconomic stability and debt sustainability;*
 - *budget execution is credible such that outturns do not deviate significantly from planned amounts;*

Components....

'Top-Down' Component.....

- III. Improved strategic allocations such that over time the pattern of resource allocation in the budget is better aligned with the Government's policy priorities for socio-economic development; and*
- IV. Resources provided on a more predictable basis enabling budget managers to plan and execute budgets with greater confidence, thereby delivering services more efficiently and effectively.*

Components of MTEF...

‘Top-down’ component documentation

Essential to assist and inform decision makers on the most effective approach to:

- *determining aggregate resources available;*
- *allocating resources in order to achieve the Government’s policy objectives;*
- *give an in-depth understanding of how to fund the gap created by the ever increasing programmes and projects within the resources (including loans and grants) available to Government;*
- *reiterate the modalities of resource allocation based on sectoral apportionment of Government policy priority hierarchy.*

Components of MTEF.....

‘Top-down’ component documentation.....

–Federal Level

- i. Fiscal Strategy Paper (FSP)*
 - Medium Term Fiscal Strategy
- ii. Budget Policy Statement – Budget Speech.*
- iii. Medium Term Sector Strategy (MTSS)*

– State Level

- i. Economic and Fiscal Update (EFU) – Fiscal Strategy Paper (FSP) – Budget Policy Statement (BPS)*
 - Medium Term Fiscal Strategy
- ii. Medium Term Sector Strategy (MTSS)*

Components of MTEF.....

‘Top-down’ component documentation....

- collation and analyses of data on fiscal and economic performance for the economic and fiscal update;
- determine overall financial resources envelope and produce the fiscal strategy paper (FSP) which sets out the fiscal (revenue and expenditure) framework.
- Statement on key policy objectives and resource allocations by sector with clear explanation and justification for the allocations. The BCC draws a lot from this.

Components of MTEF....

‘Bottom-up’ component documentation

- Bottom-up budgeting starts with sectors and MDAs reviewing performance in the previous year.
- Following this review, sectors update their medium-term sector strategies in line with the results of the top-down planning process.
- “A medium-term sector strategy (MTSS) links policy, planning and budgets. Whereas State policies define the big picture and long-term goals, medium-term strategies set out specific inputs and activities to deliver specific outputs in the medium term.”

Generalized lessons of implementation

- ❑ **Expectations:** MTEF is designed to improve decision-making, and generally focus on budget formulation.
 - *It will not solve all PFM problems.*
- ❑ **Definition:** MTEF is not a one size fits all product, per se.
 - *The principles/approach can be implemented in numerous ways using various platforms.*

Generalized lessons of implementation..

- ❑ **Customization:** MTEF needs to be customized to the country/state.
 - *Consider initial conditions in PEM, human and IT capacity, and the nature of demand.*

- ❑ **Overload:** With MTEF, and PEM reform generally, doing too much at once can overload the Government capacity and prevent progress on all reforms.
 - *Capacity and capability constraints (enablers) should be integrated.*

■ *Questions?*