Medium Term Expenditure Frameworks (MTEFs)

Medium Term Expenditure Frameworks (MTEFs) are receiving renewed attention in the context of the formulation of Poverty Reduction Strategy Papers (PRSPs). Conceptually, MTEFs are the ideal tool for translating PRSPs into public expenditure programs within a coherent multiyear macroeconomic and fiscal framework.

MTEFs alone cannot deliver improved PEM in countries in which other key aspects of budget management, notably budget execution and reporting, remain weak. The recommends are that comprehensive, detailed diagnoses of budget management systems and processes precede MTEFs, in order to ensure appropriate design of reform programs.

The middle to late 1990s saw the proliferation of medium term expenditure frameworks (MTEFs) throughout the developing world. By one count (World Bank, 2001: 6) as many as twenty five countries in Africa, Asia (eastern, central, and southern), Latin America, and Eastern Europe are at various stages in the process of adopting MTEFs, and another ten are seriously considering it.[1] This proliferation has occurred over a relatively short time period. Of the twenty-five existing MTEFs, nearly 90% were adopted over the five-year period, 1997-2001.

Africa may be regarded as the regional leader in MTEF implementation, as about half of the African MTEFs, including the most prominent ones, were adopted over the 1992-1997 period, that is, prior to the adoption of most MTEFs in other regions. In some sense, then, the African experience with MTEFs has served as a catalyst for adoption of the reform in other regions.

If the Africa region has been the laboratory for MTEF development, the World Bank has been the principal researcher. In the vast majority of cases the World Bank was involved in the decision to adopt and implement an MTEF, many of which came about as a result of a public expenditure review. In fact, the MTEF has become a standard item in the Bank's public expenditure management (PEM) toolkit.[2]

MTEFs are receiving renewed attention in the context of the formulation of Poverty Reduction Strategy Papers (PRSPs), which have in the MTEF an ideal vehicle for actually incorporating them into public expenditure programs within a coherent macroeconomic, fiscal, and sectoral framework. The IMF's Poverty Reduction and Growth Facilities (PRGFs) also motivate MTEF reforms. At the same time, MTEFs are featured prominently in the country-by-country assessment of the Heavily Indebted Poor Countries (HIPC) debt relief initiative, which, as a requirement of program accession, seeks to track poverty-related expenditures resulting from debt relief (World Bank/IMF, 2001).

[1] These figures, which differ from those in World Bank 2001, refer to MTEFs in operation or formally planned. "Adoption" simply refers to the formal decision of the government to introduce an MTEF reform. MTEFs under discussion are not included here, so these figures should be considered conservative.
[2] See the Bank's internal PEM website (http://www-wbweb.worldbank.org/prem/prmps/expenditure/).

Furthermore, the Bank's new lending instrument, the Poverty Reduction Support Credit (PRSC), will be based, in part, on the medium-term programs and costings presented in countries' PRSPs and, hence, their MTEFs.[3]

MTEFs IN THEORY

The MTEF provides the "linking framework" that allows expenditures to be "driven by policy priorities and disciplined by budget realities" (World Bank, 1998a: 32). If the problem is that policy making, planning, and budgeting are disconnected, then a potential solution is an MTEF. Given that this disconnect between policy making, planning, and budgetary processes is a common condition of developing country governance, the MTEF has increasingly come to be regarded as a central element of PEM reform programs.

Concept

According to the World Bank's Public Expenditure Management Handbook (1998a: 46), "The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources…in the context of the annual budget process."[4] The "top-down resource envelope" is fundamentally a macroeconomic model that indicates fiscal targets and estimates revenues and expenditures, including government financial obligations and high cost government-wide programs such as civil service reform. To complement the macroeconomic model, the sectors engage in "bottom-up" reviews that begin by scrutinizing sector policies and activities (similar to the zero-based budgeting approach), with an eye toward optimizing intra-sectoral allocations.[5]

Table 1. The Six Stages of a Comprehensive MTEF

STAGE	CHARACTERISTICS
I. Development of Macroeconomic/Fiscal Framework	• Macroeconomic model that projects revenues and expenditure in the medium term (multi-year)
II. Development of Sectoral Programs	• Agreement on sector objectives, outputs, and activities • Review and development of programs and sub-programs • Program cost estimation
III. Development of Sectoral Expenditure Frameworks	• Analysis of inter- and intra-sectoral trade-offs • Consensus-building on strategic resource allocation
IV. Definition of Sector Resource Allocations	• Setting medium term sector budget ceilings (cabinet approval)

[3] For an example of this, see Bevan (2001).
[4] For more on the MTEF concept see World Bank (1998a), Asian Development Bank (1999), and Dean (1997).
[5] Note that this type of sector review presupposes either program-based budgeting or, at the very least, a functional and organizational budget classification system.

V.	Preparation of Sectoral Budgets	• Medium term sectoral programs based on budget ceilings
VI.	Final Political Approval	• Presentation of budget estimates to cabinet and parliament for approval

Source: *PEM Handbook* (World Bank, 1998a: 47-51), adapted.

The value added of the MTEF approach comes from integrating the top-down resource envelope with the bottom-up sector programs. It is at Stage III that the policy making, planning, and budgeting processes are joined (see Table 1). Once the strategic expenditure framework is developed, the government defines the sectoral resource allocations, which are then used by the sectors to finalize their programs and budgets. Key to the sectoral review process is the notion that within the broad strategic expenditure framework, which reflects the resource constraint as well as government policy, sectors have autonomy to manage by making decisions that maximize technical outcomes like efficiency and effectiveness.[6] Once the MTEF has been developed it is rolling in the sense that the first outward year's estimates become the basis for the subsequent year's budget, once changes in economic conditions and policies are taken into account. The integration of the top-down envelope with bottom-up sector programs occurs by means of a formal decision making process. As the *Handbook* (1998a: 34) suggests, "Key to increasing predictability and strengthening the links between policy, planning, and budgeting is an effective forum at the center of government and associated institutional mechanisms that facilitate the making and enforcement of strategic resource allocation decisions."

Objectives of an MTEF

- *Improved macroeconomic balance, especially fiscal discipline*
- *Better inter- and intra-sectoral resource allocation*
- *Greater budgetary predictability for line ministries*
- *More efficient use of public monies*
- *Greater political accountability for public expenditure outcomes through more legitimate decision making processes*
- *Greater credibility of budgetary decision making (political restraint)*

[6] Some have suggested that an MTEF might include additional elements, such as output based budgeting systems (Oxford Policy Management, 2000).