

# **Medium Term Expenditure Frameworks: From Concept to Practice. Preliminary Lessons from Africa**

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## **Abstract**

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. But do MTEFs work in practice? With a view to drawing preliminary lessons from experience, this paper undertakes a comparative assessment of the design and impact of MTEFs on public finance and economic management in nine African countries. Based upon this assessment, it offers recommendations and practical guidelines for improving both design and implementation of MTEFs, and sets out a framework for further evaluation. The paper concludes that MTEFs alone cannot deliver improved PEM in countries in which other key aspects of budget management, notably budget execution and reporting, remain weak. The study, therefore, recommends that comprehensive, detailed diagnoses of budget management systems and processes precede MTEFs, in order to ensure appropriate design of reform programs. In countries with weak capacity, in which a full-fledged MTEF, which should be seen as a package of bundled reforms, cannot be introduced all at once, the paper proposes guidelines for sequencing the overall PEM reform program and phasing in its MTEF-specific components. It further recommends that in order to have an impact, the MTEF should be integrated with the budget process from the start, with the MTEF outer year projections published as part of the budget document. Though each country's situation is distinct, it suggests that these reforms are best managed by a set of overlapping, mutually reinforcing organizational structures, some of which should be specifically established to handle the MTEF, though the Ministry of Finance should have ultimate responsibility. And lastly, it stresses that political motivations and incentives for launching MTEFs explain in part why the MTEF has been more successful in some African countries than others.

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.<sup>1</sup> 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. It is not premature to say that MTEFs are a trend in developing country public expenditure management (PEM), and the trend shows no signs of cresting.

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<sup>1</sup> 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.

Moreover, the trend is particularly pronounced in Africa, which accounts for over half (52%) of the existing MTEFs in the developing world. 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.<sup>2</sup> More and more, MTEFs are considered the *sine qua non* of good PEM. The World Bank, however, is not the only advocate of this approach, which has also been advocated by the Asian Development Bank (1999) and the International Monetary Fund (1999), though with some reservations.<sup>3</sup>

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). A recent Board paper recommends that the Bank consider adjustment and technical assistance loans "to assist in building" MTEFs (World Bank/IMF, 2001: 27). 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.<sup>4</sup>

To date little comparative analysis of actual MTEFs in developing countries has been undertaken.<sup>5</sup> This is due, in part, to the fact that the introduction of MTEFs is rather recent. The result, however, is that MTEFs, in operational terms, have been unintentionally accorded the status of "black boxes."

## **MTEFs IN THEORY**

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<sup>2</sup> See the Bank's internal PEM website (<http://www-wbweb.worldbank.org/prem/prmps/expenditure/>).

<sup>3</sup> See IMF (1999) and "Medium-Term Expenditure Framework Debate," PREM Week, November 21, 2000, University of Maryland Conference Center (<http://www-wbweb.worldbank.org/prem/prmps/expenditure/mtefpremweek.htm>).

<sup>4</sup> For an example of this, see Bevan (2001).

<sup>5</sup> Two kinds of analytical work currently exist: conceptual work on public expenditure management (e.g., handbooks) and specific case studies (e.g., consultants' reports).

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. In this section we will briefly review the concept and the objectives of the MTEF, as well as address the issue of the relationship between the MTEF and other PEM reforms.

## A. 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.”<sup>6</sup> 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.<sup>7</sup>

**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)
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.

<sup>6</sup> For more on the MTEF concept see World Bank (1998a), Asian Development Bank (1999), and Dean (1997).

<sup>7</sup> Note that this type of sector review presupposes either program-based budgeting or, at the very least, a functional and organizational budget classification system.

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.<sup>8</sup> 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."

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<sup>8</sup> Some have suggested that an MTEF might include additional elements, such as output based budgeting systems (Oxford Policy Management, 2000).

## B. Objectives

The MTEF is intended to facilitate a number of important outcomes: greater macroeconomic balance; improved inter- and intra-sectoral resource allocation; greater budgetary predictability for line ministries; and more efficient use of public monies (World Bank, 1998a: 46). Improved macroeconomic balance, including fiscal discipline, is attained through good estimates of the available resource envelope, which are then used to make budgets that fit squarely within the envelope. MTEFs aim to improve inter- and intra-sectoral resource allocation by effectively prioritizing all expenditures (on the basis of the government's socio-economic program) and dedicating resources only to the most important ones. A further objective of the MTEF is greater budgetary predictability, which is expected as a result of commitment to more credible sectoral budget ceilings. Moreover, to the extent that budgetary decision making is more legitimate, greater political accountability for expenditure outcomes should also ensue. The MTEF also endeavors to make public expenditures more efficient and effective, essentially by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs.<sup>9</sup>

**Table 2. The Objectives of an MTEF**

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- *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)*
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## C. MTEFs and other PEM

This section also briefly addresses the issue of the relationship between the MTEF and other PEM reforms, as this has been a source of on-going discussion. The MTEF, which focuses on budget formulation issues (in a multi-year macro/fiscal framework), is a subset of basic PEM reforms. The MTEF does not address issues of budget execution or reporting; nor does it cover all relevant budget formulation issues such as budget comprehensiveness. If this is so, the question arises: is the MTEF simply the old budget formulation wine in a new budget reform wineskin?

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<sup>9</sup> This last objective only holds if line ministries are given greater autonomy to manage resources, which is not universally regarded as a key element of the MTEF approach.

One way to answer this question is to think about the MTEF approach as reframing the concept of budget projections through the lens of the three levels of PEM as articulated by the World Bank (1998a: 2): aggregate fiscal discipline (Level 1), allocation of resources in accordance with strategic priorities (Level 2), and efficient and effective use of resources in the implementation of strategic priorities (Level 3).<sup>10</sup> Moreover, the MTEF approach contextualizes a medium term (e.g. multi-year) perspective in the broader budget management and decision making environment. In this sense the MTEF represents a package of PEM reforms conceptualized and grounded in a new way. The resonance of the MTEF idea indicates that there is indeed something quite useful about the way in which it has been conceptualized.

At the same time, however, there are two potential risks one might encounter in moving from the realm of the conceptual to the operational. The first is trying to implement the concept of the MTEF as a single reform, when in fact it is a set of many inter-related reforms. The number, nature, and sequencing of MTEF component reforms would have to depend on the specific conditions of the country in question. The other risk is in thinking of the MTEF as a separate package of reforms in isolation from other basic budgetary reforms. Since an MTEF focuses principally on budget formulation issues, it is by definition a limited reform. Key issues of budget execution and reporting would have to be addressed by other reforms.

These two potential risks raise the issue of reform sequencing. Given that the MTEF is a multi-component reform in practice, and most countries could not implement all reforms at once, how should reforms be sequenced? And given that the MTEF does not address every important budgetary issue, how should the MTEF be integrated into the larger PEM reform program? On this point the *Handbook* (1998a: 81) says the following: "There is no single best way to approach the sequencing of reform. There are too many factors that influence sequencing, notably the extent to which the basics are in place, the particular set of institutional arrangements, and the sources supporting and opposing reform." However, given the above-mentioned potential risks to emerge at the operational level, the paper will devote considerable attention to the issue of reform sequencing, which has not been well covered in the existing literature.

## **MTEFs IN PRACTICE: THE AFRICAN EXPERIENCE**

An analysis of the MTEFs "on the ground" in nine African countries reveals that while there is broad agreement on the fundamentals of an MTEF at the conceptual level, there are variations in the design of the reform at the operational level. This divergence of practice, which manifests itself largely in the design and management of MTEFs, is largely due to two factors. Perhaps most importantly, the divergence is due to the needs of different countries to adapt the MTEF reform to their particular institutional and

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<sup>10</sup> We are indebted to Anand Rajaram for stressing this point.

political circumstances. The divergence of experience is also due, however, to the fact that the prescriptive advice on MTEFs has been more conceptual than practical.

While the three pillars of an MTEF are clear (projections of the aggregate resource envelope, cost estimates of sector programs, and a political-administrative process that integrates the two), the operational guidelines for designing and implementing MTEFs are much less clear. In practice, many operational questions arise: What should be the sectoral scope of the MTEF? What information should sector expenditure frameworks include, and at what level of detail? What are the appropriate roles for the ministry of finance and the sector ministries? Where and how does the MTEF fit in with the existing budget process? The fact that few of these types of questions are addressed in the best practice literature means that little operational guidance has been made available for practitioners, which has resulted in problems at the operational level. The purpose of this section is to shed some light on how the MTEF concept is currently operationalized in Africa, that is, to open up the “black box,” and to indicate the operational design elements around which variance is the highest.

## **A. Typology**

The following typology is intended to help reformers think about operationalizing MTEFs. We suggest the following three design dimensions: general, technical, and organizational. The four general design features are: scope, format, government levels, and length of period. The two technical features encompass the macroeconomic/fiscal (MFF) and sector expenditure frameworks (SEF). The four organizational features are: status in budget process, management structure, dissemination, and oversight. Taken together, these ten design features define an MTEF in operational terms. Table 3 provides more detail on the key elements defining each design feature.

**Table 3. Operationalizing MTEFs: Key Design Dimensions, Features, and Elements**

<b>Dimensions</b>	<b>Design Feature</b>	<b>Key Elements</b>
<b>General</b>	Scope	<ul style="list-style-type: none"> <li>• Sectors included</li> <li>• Type of expenditure included (recurrent and/or capital)</li> </ul>
	Format	<ul style="list-style-type: none"> <li>• Expenditures presented by classification (economic, functional, organizational, geographical, program-based)</li> </ul>
	Government Levels	<ul style="list-style-type: none"> <li>• Level of government encompassed (central, regional, and/or local)</li> </ul>
	Length of Period	<ul style="list-style-type: none"> <li>• Number of years (including budget year)</li> </ul>
<i>Technical</i>	Macro/Fiscal Framework (MFF)	<ul style="list-style-type: none"> <li>• Basis for framework (type of quantitative model)</li> <li>• Content of framework (projections, targets, aggregate and sectoral ceilings, etc.)</li> </ul>
	Sector Expenditure Framework (SEF)	<ul style="list-style-type: none"> <li>• Inclusion of policy framework and strategy</li> <li>• Type of costings of existing and proposed programs (level of detail)</li> </ul>
<i>Organizational</i>	Status in Budget Process	<ul style="list-style-type: none"> <li>• Fit in budget process (form and date of inclusion in annual process)</li> <li>• Approval/authorization process</li> </ul>
	Management Structure	<ul style="list-style-type: none"> <li>• Central and sectoral agencies' roles</li> <li>• Organizational location of MTEF management</li> <li>• Introduction of reform</li> <li>• Civil society input into process</li> </ul>
	Dissemination	<ul style="list-style-type: none"> <li>• Method and form of dissemination internally and externally (formality)</li> </ul>
	Oversight and Support	<ul style="list-style-type: none"> <li>• Oversight of sectors by central ministries (intra-sectoral allocations)</li> <li>• Level of sectoral autonomy</li> <li>• Oversight of central ministries by sectors (sectoral allocations, disbursements, etc.)</li> <li>• Training support</li> </ul>



## B. Country Cases

In Africa there are currently thirteen MTEFs in various stages of implementation. The World Bank has been involved, to varying extents, in all of them (except Namibia). The following table lists the African MTEF countries and describes the World Bank's role in each.<sup>11</sup>

**Table 4. MTEFs in Africa**

Country	Year of Initiation	World Bank Involvement
BENIN	2001	The Bank has been active in supporting MTEF reform.
BURKINA FASO	2000	The Bank has been a fairly active partner in the MTEF reform.
GABON	1998	MTEF was first proposed in the 1998 CAS.
GHANA	1996	The Bank promoted MTEF reform. The MTEF was introduced as part of Public Financial Management Reform Program.
GUINEA	1997	The MTEF was adopted as part of Bank's Public Management Adjustment Credit.
KENYA	1998	MTEF reform was promoted by the 1997 PER. Key elements of MTEF implementation were included as conditionality in the Economic and Public Sector Reform Credit (6/2000).
MALAWI	1996	The MTEF was introduced by the Fiscal Restructuring and Deregulation Program (FRDP I) in 1996 and further supported by FRDP II in 1998 and FRDP III in 2000.
MOZAMBIQUE	1997	The MTEF was promoted and supported by the Bank and DFID, which provided consultants and training.
NAMIBIA	2000	--
RWANDA	1999	MTEF reform was proposed by the 1998 PER. The MTEF position paper and plan of action were financed by DFID.
SOUTH AFRICA	1997	The first effort at MTEF reform was supported by the Bank, which also provided advice during implementation.
TANZANIA	1998	MTEF reform was promoted by the 1997 PER. The MTEF was developed in the context of the annual, participatory PER process. Key elements of MTEF implementation (e.g. preparation of the MTEF FY00-02 itself) and expenditure reallocation targets were included as conditionality in the Programmatic Structural Adjustment Credit (6/2000).
UGANDA	1992	The Bank participated in the MTEF reform and offered assistance on an ad hoc basis.

Source: Africa region country economists and Public Expenditure Management Thematic Group.

To be included in the following analysis, a reform experience of more than one year was deemed appropriate. This criterion excludes the youngest of the African MTEFs (Benin, Namibia, and Burkina Faso). In addition, Gabon was excluded for lack of

<sup>11</sup> This list considers only reforms explicitly adopted under the MTEF banner. There are other PEM reforms, such as those implemented in Botswana in the 1960s (see Box 1), that approximate an MTEF, but they are not addressed here.

information, bringing the number of cases studies to nine (nearly 70% of the total number of African MTEFs). The analysis is based on internal World Bank and government documents, publications, working papers, press accounts, and interviews with country economists and other experts (including several in field offices). A standardized questionnaire was used in the interviews and to structure the case studies.

### **Greater Political Accountability for Public Expenditure Outcomes**

The preceding analysis is based on an assessment of the more technical objectives of an MTEF. An exclusively technical focus, however, is inadequate to assess the complex set of reforms that comprise a MTEF. The MTEF, by virtue of its design, is based on change in central budgetary decision-making processes. As a result of the MTEF, the budgetary decision making process should become more accountable, legitimate, and credible. Political accountability should increase at both the political and managerial levels through greater transparency. The MTEF forces politicians to be up front about their priorities, as well as their willingness to fund them. At the same time sectoral managers may also be held more accountable to produce results because their intra-sectoral priorities and resources are well specified in the context of the MTEF. In essence, the MTEF should put the numbers “on the table” in a way that allows for greater scrutiny by civil society and the private sector (though this is ultimately contingent on publishing budget execution data). Furthermore, the MTEF should yield greater legitimacy to the PEM process by facilitating cooperative and consensus-based decision-making (this was one of the outcomes explicitly stressed in the South African case).<sup>12</sup>

Based on the cases, a preliminary assessment of the impact of MTEFs on accountability is undertaken. These results, necessarily subjective and incomplete, should be considered as a basis for further research. One basic indicator of accountability is whether the MTEF is published and made available to the public. If it is not published, it runs the risk of being merely an internal, technical document. Currently, MTEFs are published in Uganda, South Africa, Tanzania, Ghana, and Kenya. Publication of the MTEF brings with it the possibility that civil society would play a greater role in the PEM process. Moreover, in countries such as South Africa and Kenya, where the MTEF must be approved by parliament, the MTEF’s profile is raised considerably (see box 2 below).

In Tanzania the PER Consultative Meetings, the minutes of which are published with the PER, has provided an excellent forum for discussion and debate of resource allocation issues. It seems that the MTEF has helped foster debate by literally “putting the numbers on the table.” Participants have observed that some sectors and sub-sectors are not given the proper “weight” and that other sectors are not given proper priority status (see Box 2). The MTEF has therefore fostered transparency and has generated calls

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<sup>12</sup> 1998 Budget Speech, cited in World Bank, 1998a: 34.

for greater transparency. The last consultative meeting called for private sector representation not only in sectoral working groups, but in the macroeconomic group, which is responsible for the global budget framework.

There is some anecdotal evidence that publication and dissemination of MTEFs have led to greater civil society involvement in PEM issues. The MTEF seems to be providing a mechanism (forum) for taking civil society perspectives into account. In some countries, including South Africa, Kenya, and Tanzania, the MTEF is clearly raising expectations. Whether they are met, of course, is another matter entirely. Still, the potential impact of raising expectations might play a catalytic role in reinforcing the MTEF process from outside the government.

**Box 1: Civil Society Involvement in PEM Issues through MTEFs in Africa**

**South Africa:** The need for the MTEF to be approved by parliament occasioned public hearings on the MTEF. COSATU, the South African trade union, submitted comments on the MTEF to the Select Committee on Finance in 2000. According to COSATU, “The MTEF process has potential advantages in that it aims to cost major strategies and policies, to improve the public understanding of fiscal policy aims and allocations, and to give departments more stable allocations as an aid to medium-term planning...We note that some improvements have been effected in making the budget process more transparent and in opening up more opportunities for public comment in the course of the budget cycle” (COSATU, 2000). The trade union goes on to argue that much more needs to be done, however. In addition, the South African Chamber of Mines expressed satisfaction with the MTEF: “We are especially heartened by the government’s clear commitment to fiscal policies based on multi-year budgeting in the MTEF...This should go a long way towards building a macroeconomic climate that will generate greater stability and certainty and, thereby, encourage the levels of investment this country so sorely needs” (Woza, 1998).

**Kenya:** At least one Kenyan NGO expressed on-line approval at the MTEF-inspired initiative to include civil society representatives in the budget formulation process. “That the Kenyan government has invited the civil society to help in budget formulation is indeed historic. For a long time, budget making has been a highly inaccessible process. It has been a process that belongs to the adepts, those who are most learned in its arts and precepts, and practices” ([www.web.net/~econews/budget.html](http://www.web.net/~econews/budget.html)).

**Tanzania:** The MTEF, through the PER consultative meeting process, has generated debate about spending priorities. For example, one participant at the PER FY00 Consultative Meeting (May 2000) observed, “Rural roads are not given weight in the Roads MTEF. A paper on the rural roads is missing.”

The PEM process also becomes more accountable when technical, professional expertise is brought to bear on it. In several cases examined here, including Tanzania and South Africa, the working groups that produce the MTEF include civil society representatives, some of whom are experts in their fields. Opening up the decision making process to experts has the potential to make it more accountable to professional criteria and less responsive to political calculations. Once again, the

extent to which politicians respond to these pressures for greater accountability generated by MTEFs remains to be seen, but there is some indication that MTEFs, if designed properly, may be successful in building some pressure for greater accountability in the PEM process.

## **F. Increased Credibility of Budgetary Decision Making**

Lastly, the MTEF should lend greater credibility to budget management. With better data and hard aggregate and sectoral budget constraints, the budget itself should become more credible. The paper does not examine whether MTEFs increase budget credibility in these cases, given the previous finding that MTEFs have not yet increased predictability, which is considered a prerequisite to credibility.

In fact, however, the issue of credibility is fundamentally a political one. According to the *PEM Handbook*, the MTEF is necessary, in part, to “restrain strategic decision making” (35). There is an implicit sense that politicization of public expenditure management is at the root of the problem and that decision makers (viz., politicians) need to be restrained by “...enforcing (on them) a set of procedures that enhance (sic) the rigor of decision making” (35). Essentially, if the MTEF can restrain decision-making, then the budget process would become more credible. The MTEF is thus intended to increase the credibility of the PEM process.<sup>13</sup> Using the MTEF, a technical-institutional tool, as a solution for a fundamentally political problem is an issue that has not yet been sufficiently explored, though doing so might shed a great deal of light on the difficulties associated with the experience of MTEFs in practice.

## **G. Summary**

The limited quantitative evidence shows, thus far, that MTEFs are not yet unambiguously associated with their objectives (see Table 11). In terms of macroeconomic balance, with the possible exception of Uganda, there is no evidence that MTEFs have made a significant impact. In terms of resource allocation, there is some limited and qualified evidence to suggest that MTEFs are linked to reallocations to a subset of priority sectors. With respect to budgetary predictability and consistency, there is no support for the assumption that MTEFs are associated with greater discipline and less deviation. At best, then, these cases present a mixed picture.

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<sup>13</sup> The issue of credibility in PEM is recognized as a problem in the literature. See, for example, World Bank 2000 (11): “Strengthening budget management involves increasing the credibility of public budgeting.”

**Table 5. Summary of Preliminary Impact Assessment of MTEF Reforms in Africa**

<b>Expected Outcomes</b>	<b>Actual Outcomes</b>
<ul style="list-style-type: none"><li>• Improved macroeconomic balance, especially fiscal discipline</li></ul>	<ul style="list-style-type: none"><li>• <i>No clear empirical evidence of improved macroeconomic balance</i></li></ul>
<ul style="list-style-type: none"><li>• Better inter- and intra-sectoral resource allocation</li></ul>	<ul style="list-style-type: none"><li>• <i>Some limited empirical evidence that MTEFs are associated with reallocations to subsets of priority sectors</i></li></ul>
<ul style="list-style-type: none"><li>• Greater budgetary predictability for line ministries</li></ul>	<ul style="list-style-type: none"><li>• <i>No empirical evidence of link between MTEFs and greater budgetary predictability</i></li></ul>
<ul style="list-style-type: none"><li>• More efficient use of public monies</li></ul>	<ul style="list-style-type: none"><li>• <i>No evidence that MTEFs are developed enough to generate efficiency gains in sectoral spending</i></li></ul>

At the same time, there are a number of possible explanations that might mitigate the weak performance to date. For one, MTEFs in the Africa region are still relatively young as major reforms go (with the exception of Uganda). MTEFs in South Africa, Ghana, and Tanzania are all less than five years old. It may be that this type of comprehensive PEM reform needs to be developed over the long term. If that is the case, it would be premature to judge any of these MTEFs, except possibly Uganda. However, the Ugandan MTEF, which is nearly a decade old, does not reveal a one to one correlation between impact and longevity. The Ugandan case does present some favorable trends, however, which, if they continue, will put the MTEF in a better light. The Ugandan case might also suggest the tentative hypothesis that MTEF reforms take a minimum of a dozen years.

Second, the apparent lack of progress evident in these cases should not necessarily be attributed to problems with the MTEF. Many other and varied exogenous factors, from economic crises to natural disasters, could bear some responsibility. Clearly, the picture is more complex. Still, it would be quite a coincidence if exogenous factors were responsible for all the shortcomings of the MTEFs in all the cases examined.

Third, and most importantly, because the data are limited and incomplete, this assessment should be regarded as preliminary. A much more systematic, comprehensive analysis, controlling for other factors, would have to be undertaken before solid conclusions could be drawn. Still, it is safe to say at this point that the MTEF in its first years of existence has not had an overwhelming impact on PEM in Africa.

## MTEF COUNTRY CASES

**Table 1.: MTEFs in Africa: General Design Features**

<i>Country</i>	<i>Scope</i>	<i>Format</i>	<i>Government Levels</i>	<i>Length of Period</i>
GHANA	<ul style="list-style-type: none"> <li>• Nominally all sectors included</li> <li>• Both recurrent and capital included</li> </ul>	<ul style="list-style-type: none"> <li>• Economic, functional, and organizational classifications</li> </ul>	<ul style="list-style-type: none"> <li>• Primarily central (though some extension to sub-national level)</li> </ul>	<ul style="list-style-type: none"> <li>• Three years</li> </ul>
GUINEA	<ul style="list-style-type: none"> <li>• Seven sectors (education, health, rural development, roads, justice, urban development/housing, social affairs) included</li> <li>• Only recurrent included</li> </ul>	<ul style="list-style-type: none"> <li>• Economic and functional classifications</li> </ul>	<ul style="list-style-type: none"> <li>• Central only</li> </ul>	<ul style="list-style-type: none"> <li>• Three years</li> </ul>
KENYA	<ul style="list-style-type: none"> <li>• Nominally all sectors included</li> <li>• Both recurrent and capital included</li> </ul>	<ul style="list-style-type: none"> <li>• Economic, functional, and organizational classifications</li> </ul>	<ul style="list-style-type: none"> <li>• Central only</li> </ul>	<ul style="list-style-type: none"> <li>• Three years</li> </ul>
MALAWI	<ul style="list-style-type: none"> <li>• Nominally all sectors included</li> <li>• Recurrent and capital included (though separate capital budget)</li> </ul>	<ul style="list-style-type: none"> <li>• Functional classification</li> </ul>	<ul style="list-style-type: none"> <li>• Central only</li> </ul>	<ul style="list-style-type: none"> <li>• Three years</li> </ul>
MOZAMBIQUE	<ul style="list-style-type: none"> <li>• Nominally all sectors included, though only five have some type of costings (education, health, agriculture, roads, water)</li> <li>• Recurrent and some capital expenditures included (varies by sector)</li> </ul>	<ul style="list-style-type: none"> <li>• Economic and functional classification (fourteen categories)</li> </ul>	<ul style="list-style-type: none"> <li>• Central only (highly centralized budget system)</li> </ul>	<ul style="list-style-type: none"> <li>• Expenditures—six years</li> <li>• Revenues—ten years</li> </ul>
RWANDA	<ul style="list-style-type: none"> <li>• Nominally fifteen (out of twenty) ministries included</li> <li>• Recurrent expenditures only (capital in separate budget)</li> </ul>	<ul style="list-style-type: none"> <li>• Functional classification</li> </ul>	<ul style="list-style-type: none"> <li>• Central and regional (prefecture) levels</li> </ul>	<ul style="list-style-type: none"> <li>• Three years</li> </ul>
SOUTH AFRICA	<ul style="list-style-type: none"> <li>• Nominally all sectors included</li> <li>• Recurrent and capital expenditures both included</li> </ul>	<ul style="list-style-type: none"> <li>• Economic, functional (eight categories), and geographical (level of government) classifications</li> </ul>	<ul style="list-style-type: none"> <li>• Central, provincial, and local (highly decentralized budget system)</li> </ul>	<ul style="list-style-type: none"> <li>• Four years</li> </ul>
TANZANIA	<ul style="list-style-type: none"> <li>• Seven sectors included (education, health, water, roads, agriculture, judiciary, land)</li> <li>• Recurrent and capital included (though separate capital budget)</li> </ul>	<ul style="list-style-type: none"> <li>• Economic, organizational, and functional (sub-sector) classifications</li> </ul>	<ul style="list-style-type: none"> <li>• Central only</li> </ul>	<ul style="list-style-type: none"> <li>• Three years</li> </ul>
UGANDA	<ul style="list-style-type: none"> <li>• All eight sectors included</li> <li>• Recurrent and capital</li> </ul>	<ul style="list-style-type: none"> <li>• Economic, functional, and organizational</li> </ul>	<ul style="list-style-type: none"> <li>• Central and local (as of 2000) levels</li> </ul>	<ul style="list-style-type: none"> <li>• Three years</li> </ul>

	included	(major spending agencies) classifications		
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**Table 2.: MTEFs in Africa: Technical Design Features**

Country	Macro/Fiscal Framework (MFF)	Sectoral Expenditure Frameworks (SEF)
GHANA	<ul style="list-style-type: none"> <li>Based on spreadsheet model (flow of funds)</li> <li>Presents projections and indicative aggregate and sectoral ceilings (though ceilings not realistic)</li> </ul>	<ul style="list-style-type: none"> <li>SEFs include strategic plan with objectives, outputs, activities (though quality varies by sector)</li> <li>Ministries produced costings at the program and sub-program levels</li> </ul>
GUINEA	<ul style="list-style-type: none"> <li>Based on IMF projections</li> <li>Includes projections, targets, and indicative aggregate and sectoral ceilings</li> </ul>	<ul style="list-style-type: none"> <li>Only priority sectors (seven) present SEFs with objectives, strategies, and performance indicators</li> <li>Some priority sectors include costings (without detailed breakdowns) for recurrent expenditures, though quality varies</li> </ul>
KENYA	<ul style="list-style-type: none"> <li>Based on spreadsheet (RSM-X) model</li> <li>Presents projections and aggregate ceilings (including ceilings based on economic classification)</li> <li>Discussion of assumptions</li> </ul>	<ul style="list-style-type: none"> <li>Sector priorities and costings not presented in MTEF (activity-based costings at aggregate levels included in PRSP)</li> <li>PRSP costings vary by sector; in some priority sectors costings were either absent or incomplete</li> </ul>
MALAWI	<ul style="list-style-type: none"> <li>Based on spreadsheet (RSM-X) model and IMF projections</li> <li>Provides projections and indicative aggregate and sectoral ceilings (though not in timely manner)</li> </ul>	<ul style="list-style-type: none"> <li>Some discussion of objectives and strategy</li> <li>All ministries present activity-based costings for recurrent expenditures only; quality varies considerably; no standardized format</li> </ul>
MOZAMBIQUE	<ul style="list-style-type: none"> <li>Based on a CGE model</li> <li>Presents projections and indicative aggregate and sectoral ceilings</li> <li>Discussion of assumptions and scenarios</li> </ul>	<ul style="list-style-type: none"> <li>Limited discussion of strategy in some priority sectors</li> <li>The five priority sectors present SEF costings based either on activities or programs (at aggregate levels); no standardized format</li> <li>Most non-priority sectors SEFs presented costings according to their internal organizational structures</li> </ul>
RWANDA	<ul style="list-style-type: none"> <li>Based on IMF projections</li> <li>Presents projections and indicative aggregate and sectoral ceilings</li> </ul>	<ul style="list-style-type: none"> <li>SEFs include strategic plans (“profiles”)—policies, strategies, and outputs</li> <li>Only three sectors (health education, justice) presented some costings (of different quality); no standardization</li> </ul>
SOUTH AFRICA	<ul style="list-style-type: none"> <li>Based on econometric models</li> <li>Presents projections, targets, and indicative aggregate ceiling</li> <li>Discussion of assumptions</li> <li>Budget Forum prepares indicative sectoral ceilings</li> </ul>	<ul style="list-style-type: none"> <li>SEFs include strategic plans</li> <li>Most departments and provinces present program costings</li> <li>Special “sectoral reviews” done initially in five sectors (health, education, welfare, criminal justice, defense, civil service)</li> <li>Standardized procedures (manual)</li> </ul>
TANZANIA	<ul style="list-style-type: none"> <li>Based on econometric and spreadsheet models</li> <li>Presents projections and indicative aggregate and sectoral ceilings</li> <li>Includes scenarios (base, pessimistic, optimistic)</li> </ul>	<ul style="list-style-type: none"> <li>SEFs include strategies, objectives, and priorities</li> <li>SEFs vary considerably in quality (some present detailed program costings, others do not present costings); no standardized format</li> </ul>

UGANDA	<ul style="list-style-type: none"><li>• Based on spreadsheet models</li><li>• Presents projections, targets, and indicative ceilings</li></ul>	<ul style="list-style-type: none"><li>• Sectoral objectives presented in PRSP</li><li>• SEFs vary considerably in quality, though all sectors prepare costings (some are quite detailed and comprehensive, while others are rudimentary)</li><li>• Some SEFs include performance targets</li></ul>
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**Table 3.: MTEFs in Africa: Organizational Design Features**

<i>Country</i>	<i>Budget Process Status</i>	<i>Management Structure</i>	<i>Dissemination</i>	<i>Oversight</i>
GHANA	<ul style="list-style-type: none"> <li>• MTEF is formally part of budget process</li> <li>• Not subject to formal approval by either cabinet or parliament</li> </ul>	<ul style="list-style-type: none"> <li>• MOF manages process</li> <li>• Macroeconomic working group prepares MFF</li> <li>• Ministries prepare SEFs</li> <li>• No civil society input</li> </ul>	<ul style="list-style-type: none"> <li>• Disseminated as part of budget</li> </ul>	<ul style="list-style-type: none"> <li>• Some sectoral autonomy</li> <li>• Training workshops held on strategic planning</li> <li>• MTEF technical guide and user manual developed</li> </ul>
GUINEA	<ul style="list-style-type: none"> <li>• Nominally part of budget process</li> <li>• Not subject to formal approval by either cabinet or parliament</li> </ul>	<ul style="list-style-type: none"> <li>• MTEF managed by Public Management Adjustment Credit steering committee under Prime Minister</li> <li>• MOF prepares MFF</li> <li>• Sectors prepare SEFs with MOF support</li> <li>• No civil society input</li> </ul>	<ul style="list-style-type: none"> <li>• Disseminated internally</li> <li>• Little external dissemination</li> </ul>	<ul style="list-style-type: none"> <li>• No performance agreements, though some performance indicators developed</li> <li>• Little sectoral autonomy</li> <li>• Some initial training provided</li> </ul>
KENYA	<ul style="list-style-type: none"> <li>• MTEF released a few months before budget approved</li> <li>• Cabinet approves MTEF and sends to parliament for approval</li> </ul>	<ul style="list-style-type: none"> <li>• MTEF Secretariat coordinates process</li> <li>• Macroeconomic working group prepares MFF</li> <li>• Sector working groups (six) prepare SEFs</li> <li>• No formal civil society input</li> </ul>	<ul style="list-style-type: none"> <li>• Disseminated internally by MOF</li> <li>• Dissemination to parliament raises profile of MTEF</li> </ul>	<ul style="list-style-type: none"> <li>• No performance agreements</li> <li>• Little sectoral autonomy</li> <li>• After initial launch workshops, no further training provided</li> </ul>
MALAWI	<ul style="list-style-type: none"> <li>• Not yet fully implemented into budget process</li> <li>• Not submitted to cabinet for approval</li> </ul>	<ul style="list-style-type: none"> <li>• Budget office manages MTEF process</li> <li>• Sectoral participation is minimal</li> <li>• No civil society input</li> </ul>	<ul style="list-style-type: none"> <li>• Internal dissemination</li> <li>• No external dissemination</li> </ul>	<ul style="list-style-type: none"> <li>• No performance agreements</li> <li>• Little sectoral autonomy</li> <li>• No training provided</li> </ul>
MOZAMBIQUE	<ul style="list-style-type: none"> <li>• MOF issues MTEF; no higher political approval</li> <li>• MTEF not prepared sufficiently in advance of budget to play meaningful role in process</li> </ul>	<ul style="list-style-type: none"> <li>• Budget office manages MTEF</li> <li>• MFF managed by Gabinete de Estudos</li> <li>• Sectors develop SEFs with MOF input</li> <li>• MTEF launched by expenditure and macroeconomic working groups</li> <li>• No civil society input</li> </ul>	<ul style="list-style-type: none"> <li>• Disseminated internally by MOF</li> <li>• No external dissemination</li> </ul>	<ul style="list-style-type: none"> <li>• Little sectoral autonomy</li> <li>• No performance agreements</li> <li>• No training provided</li> </ul>
RWANDA	<ul style="list-style-type: none"> <li>• MTEF has not yet been fully integrated into the budget process (timing problems)</li> <li>• In 2001 MTEF is to replace old budget</li> </ul>	<ul style="list-style-type: none"> <li>• MTEF Design and Implementation Group (DIG) manages process; headed by budget office and includes other MOF</li> </ul>	<ul style="list-style-type: none"> <li>• Disseminated internally by DIG</li> <li>• No external dissemination</li> </ul>	<ul style="list-style-type: none"> <li>• MTEF Policy Group provides broad policy guidelines</li> <li>• No performance agreements</li> </ul>

	<p>process</p> <ul style="list-style-type: none"> <li>• MTEF approved by cabinet as part of the Budget Framework Paper</li> </ul>	<p>directors</p> <ul style="list-style-type: none"> <li>• Ministerial budget committees prepare SEFs (only half of ministries have committees)</li> </ul> <p>No civil society input</p>		<ul style="list-style-type: none"> <li>• Little sectoral autonomy</li> <li>• Launch and strategic framework workshops held</li> </ul>
SOUTH AFRICA	<ul style="list-style-type: none"> <li>• Medium Term Budget Policy Statement (MFF and SEFs) is published three months before budget</li> <li>• MTEF also published as part of budget</li> <li>• Cabinet approves MTEF and MOF presents it to parliament</li> </ul>	<ul style="list-style-type: none"> <li>• Budget office manages MTEF</li> <li>• Department of state expenditures (DSE) evaluates SEFs, which are prepared by sectors</li> <li>• MOF prepares MFF</li> <li>• MTEF review teams (composed of sector specialists, MOF officials, consultants) prepare SEFs</li> </ul>	<ul style="list-style-type: none"> <li>• MOF disseminates MTEF as both part of MTBPS and the budget</li> <li>• MTEF presented to parliament, which allows civil society and private sector greater scrutiny</li> </ul>	<ul style="list-style-type: none"> <li>• Medium Term Expenditure Committee and Ministers' Committee on Budget oversee process</li> <li>• No performance agreements</li> <li>• Provinces have high degree of autonomy</li> <li>• MTEF highlights changes from previous version</li> <li>• Support provided on an ad hoc basis only</li> </ul>
TANZANIA	<ul style="list-style-type: none"> <li>• MTEF not completely integrated into FY1999/00 budget process (PER, 1/01), though situation has improved recently</li> <li>• MTEF not formally submitted to cabinet or parliament</li> </ul>	<ul style="list-style-type: none"> <li>• MOF, supported by PER working group, manages process</li> <li>• Budget guidelines committee, supported by macroeconomic group, prepares MFF</li> <li>• Sector working groups prepare SEFs</li> <li>• Working groups are composed of government officials, donors, IFIs, academia, private sector, giving civil society official status in the process</li> </ul>	<ul style="list-style-type: none"> <li>• MTEF is discussed in detail in the PER consultative meetings and minutes are circulated as part of the PER</li> </ul>	<ul style="list-style-type: none"> <li>• Pilot performance agreements in a few sectors</li> <li>• Sectors do not have much autonomy</li> <li>• Sectors beginning to develop performance indicators</li> <li>• Budget office provided training to sectors (including format for SEFs)</li> </ul>
UGANDA	<ul style="list-style-type: none"> <li>• MTEF is integral part of the budget process</li> <li>• Presented as part of the Budget Framework Paper (BFP)</li> <li>• BFP approved by cabinet and parliament</li> </ul>	<ul style="list-style-type: none"> <li>• MOF manages process</li> <li>• Participatory process of arriving at sector ceilings through "budget workshops"</li> <li>• MOF macro unit prepares MFF</li> <li>• Sector working groups (composed of sector specialists, MOF, World Bank, donors, NGOs) develop SEFs</li> <li>• Formal civil society input</li> </ul>	<ul style="list-style-type: none"> <li>• Disseminated internally through working groups</li> <li>• Disseminated externally through parliament</li> </ul>	<ul style="list-style-type: none"> <li>• No performance agreements</li> <li>• No sectoral autonomy</li> <li>• MOF has provided some training</li> </ul>

Note: Budget offices and ministries of finance (MOF) are referred to generically.

## **ANNEX II MTEF DEVELOPMENT RATING SYSTEM**

In order to present ratings in Figures 1-3, the data from Tables 1-3 (Annex I) were coded according to the following rules:

### **General**

1. Coverage: Sectors included: All (+1) or Partial (0)
2. Coverage: Expenditures included: Recurrent and Capital (+1) or Other (0)
3. Format: Economic, Functional, and Program Classification (+2), Economic and Functional Classification (+1), or Other (0)
4. Length of period: Three or Four years (+1) or More (0)

### **Technical**

1. MFF: Reasonable Forecasting Model for MFF (+1) or Not (0)
2. MFF: Projections and Ceilings in MFF (+1) or Not (0)
3. SEFS: Strategy in SEFs (+1) or Not (0)
4. SEFs: SEF Costings: Program-based (+2), Some Costings at Aggregate Level (+1), No Costings (0)

### ***Organizational***

1. Status: Fully Integrated into Budget Process (+2), Partially (+1), or Not (0)
2. Status: Approved by Parliament (+1) or Not (0)
3. Management: Multi-Layered Management Structure (+1) or Not (0)
4. Management: SEF Working Groups (+1) or Not (0)
5. Management: Civil Society Participation (+1) or Not (0)
6. Oversight: Performance Indicators/Agreements (+1) or Not (0)
7. Oversight: Training and Materials (+2), Training (+1), or Not (0)