

ICGFM 32nd International Annual Training Conference

**Mid-Term Expenditure
Framework**



**Based on Fiscal Impact Analysis
and the Baseline**

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COUNTRY CONTEXT



General Information

Surface: 112.492 sq km²

Population: 9,112,867

Official Language: Spanish

Capital City: Tegucigalpa

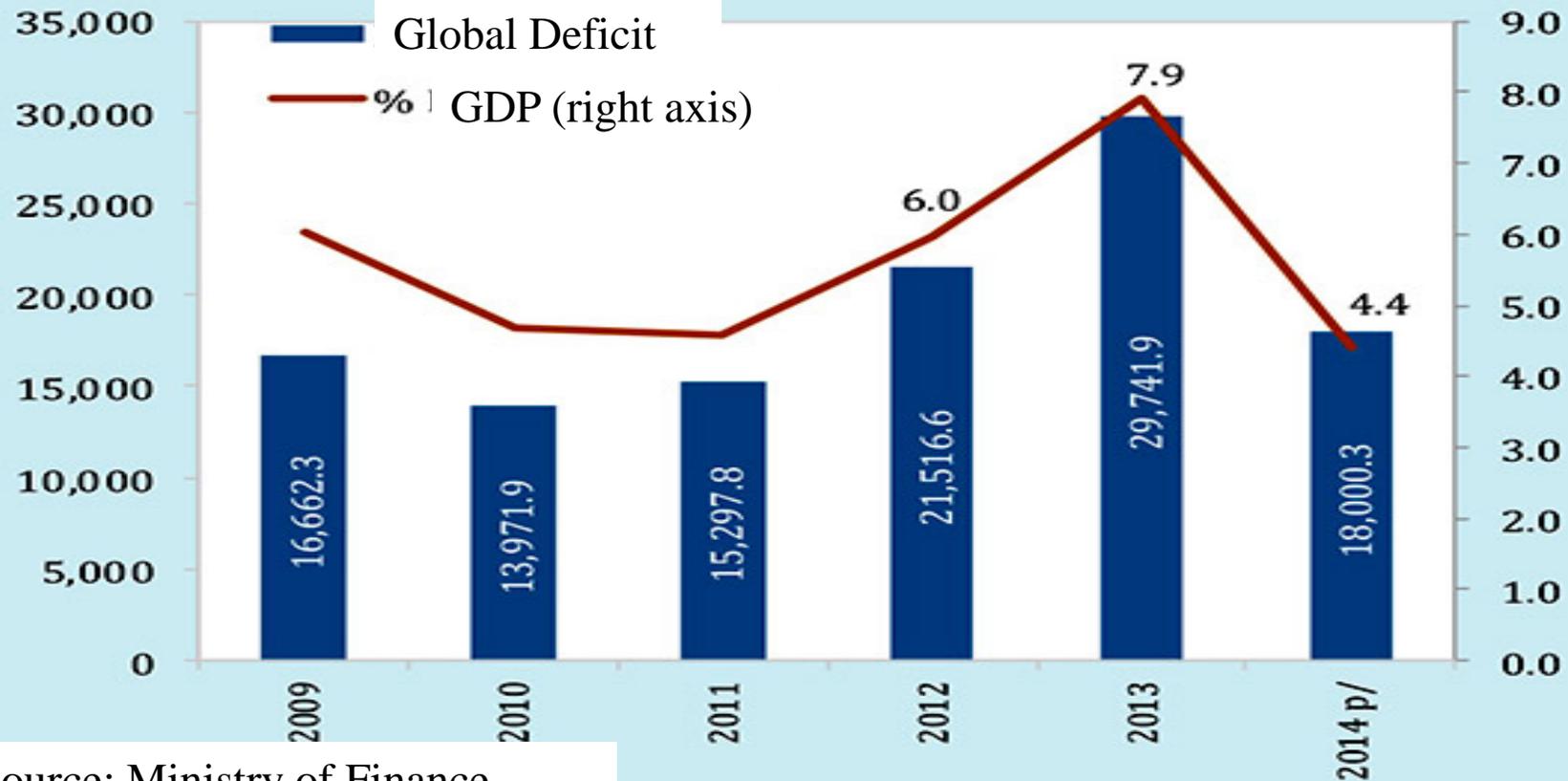
INTRODUCTION

- Honduras has taken steps toward developing and implementing the Mid-Term Expenditure Framework (MTEF), the Baseline (BL) and the Fiscal Impact Analysis (FIA) being parts of this process.
- In 2012, the Ministry of Finance (Secretaría de Finanzas - SEFIN) requested technical assistance from international organizations.
- It's a first experience with the MTEF, however, since 2005, revenue budget and plurinannual expenditure estimates have been made.

Historical Situation of Public Finances

Central Administration Deficit

In Millions of Lempiras



Source: Ministry of Finance

KEY ASPECTS

There is no agreement with the IMF, since in 2012 no subscription is reached due to non-compliance with the former agreement (2010)

NO eligibility for the Millennium Challenge Account, though there is support from the Threshold Program, enabling

the Threshold Program to identify the need to help the country with the implementation of the FIA and the BL

MID-TERM EXPENDITURE FRAMEWORK

- **Definition:** it is the development of a pluriannual expenditure projection consistent with the macroeconomic and fiscal estimates of the country, which should be used to determine the future budgetary needs of the current services rendered by the Government.
- The MTEF is also defined as a strategic and resource reallocation projection process that is conducted at the beginning of the budget formulation process and involves the whole government.

MID-TERM EXPENDITURE FRAMEWORK

- ✓ The MTEF is a strategic resource projection process that usually covers 3 to 5 year periods.
- ✓ It is a means of coordinations between:
 - ✓ fiscal management,
 - ✓ planning, and
 - ✓ budget management.

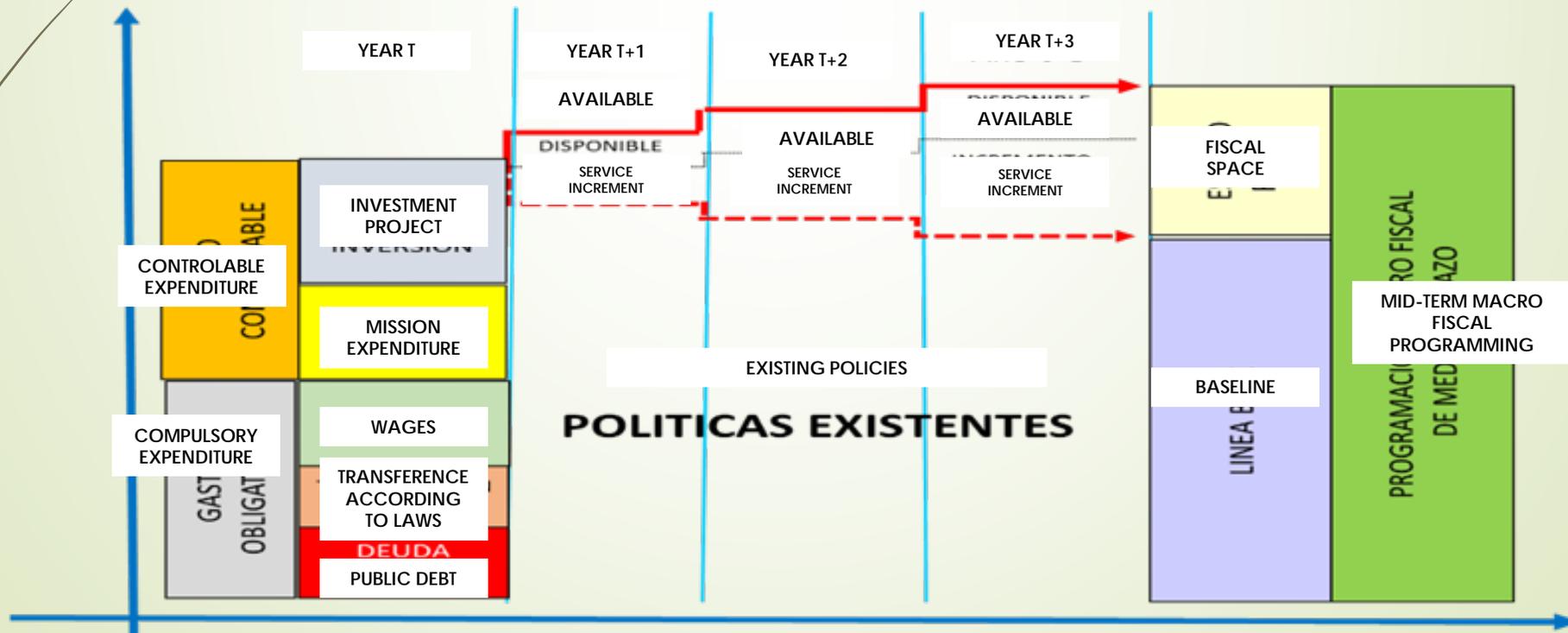
MTEF IMPLEMENTING PURPOSE

- Compliance with the fiscal goals set in the Fiscal Responsibility Law.
- Planning to be subject to the mid-term budget restriction derived from the existing fiscal goals.
- Budget reflecting the government's policy priorities.

WHAT IS THE BASELINE?

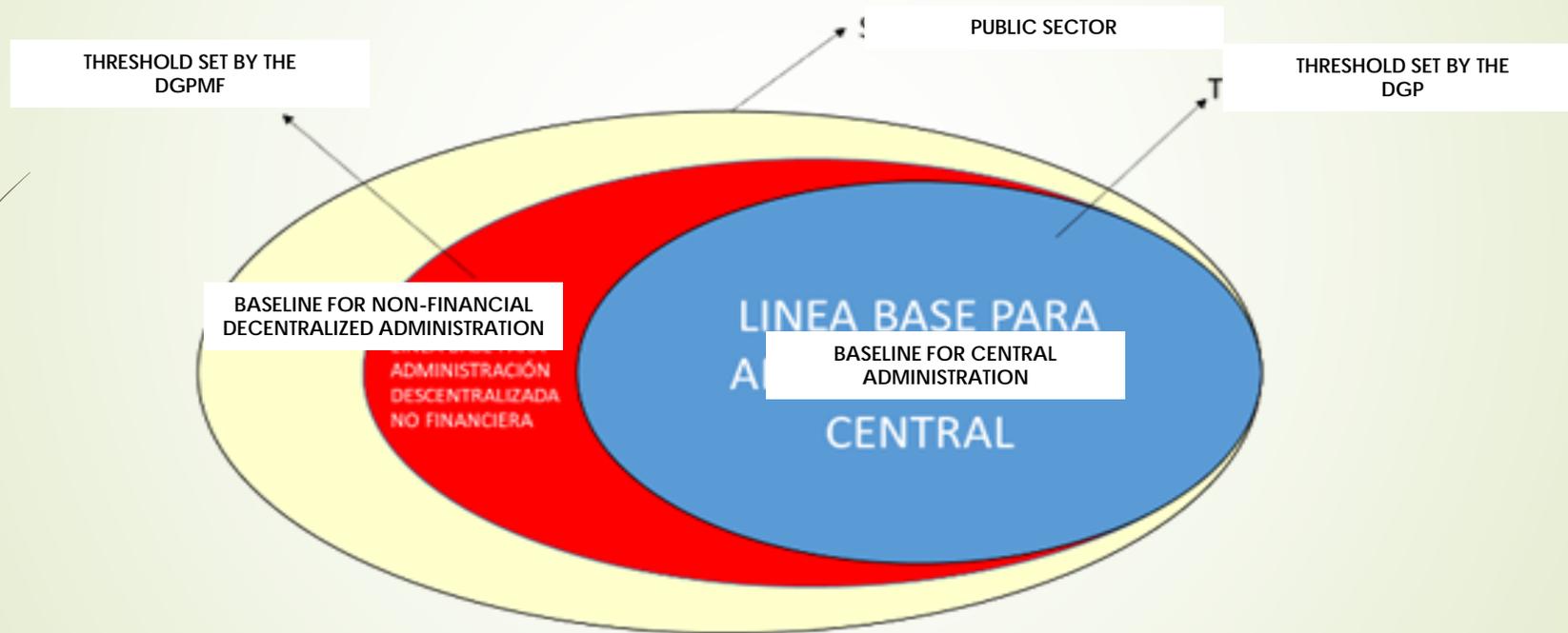
à It consists of calculating the future value of current expenditure allowing us to:

- Determine current programs expenditure.
- Comparing the BL to fiscal revenue estimates.
- Establishing the available fiscal space gap.



IMPLEMENTATION

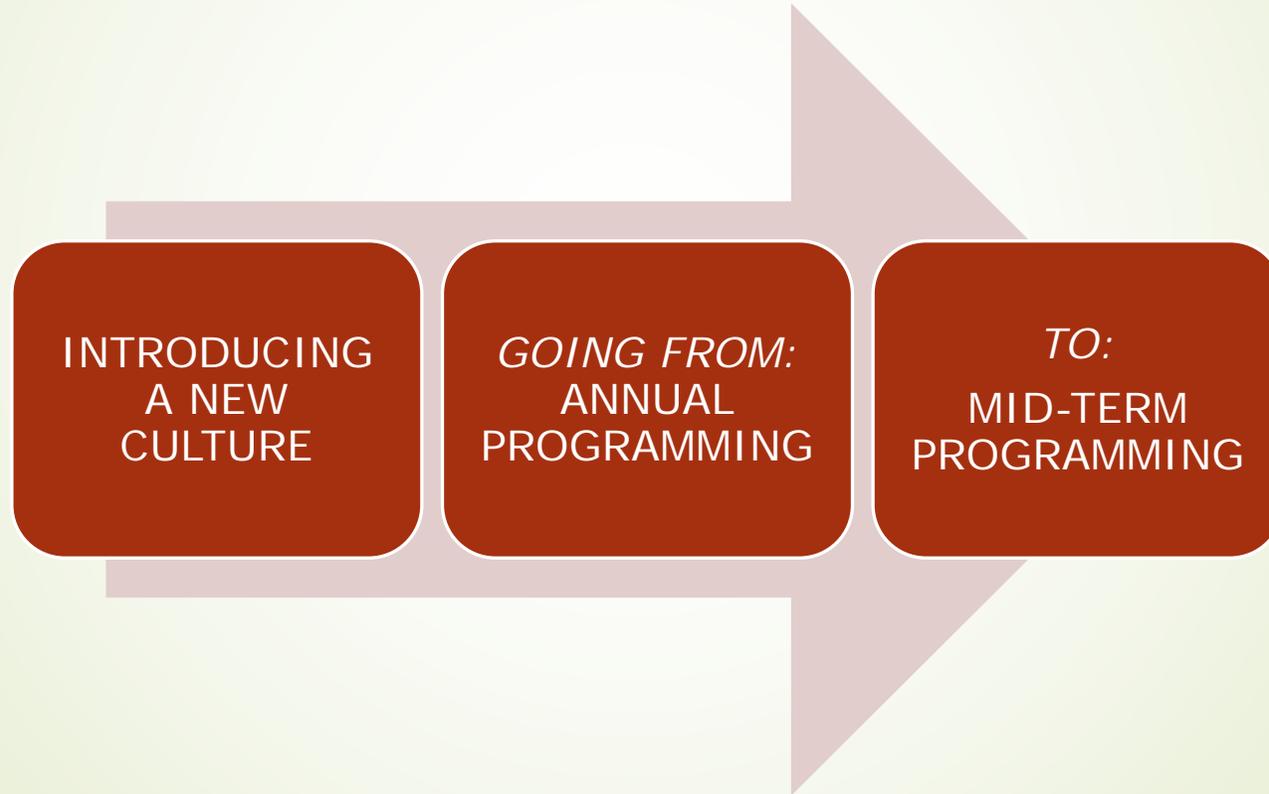
Who should conduct the Baseline?



Except: Financial Institutions.

IMPLEMENTATION

- Why implement BL and what for?



IMPLEMENTED ACTIONS

- Development of methodologies, instructions and templates. This has resulted in an ongoing improvement process.
- Training and delivery of materials to all Institutions.
- As from 2016, institutions prepare the BL in a systematized manner.

LESSONS LEARNED

- At the beginning of the process, it was not possible to apply the same methodology to all Institutions.
- Initially, BL data was not properly used as an input to set budget ceilings.
- Creating false expectations in Institutions, intending to make the BL the budget ceiling.
- For the BL to support the MTEF process, it is required for its projection to be conducted before the setting of ceilings.



FISCAL IMPACT ANALYSIS

- It is a tool that can be used to “fund”/ determine the fiscal impact of new political initiatives. The impact includes both expenditure and revenue.
- Its goal is to forecast the impact of new policies on public finances and for the latter to be identified before passing said policies.
- It supports the MTEF, since the new programs will affect the BL change factors.

HOW DID WE START THIS PROCESS

- In 2015, the passing of Laws without funding prompted the authorities of the Ministry of Finance (SEFIN) to obtain technical assistance from the Technical Assistance Office (OTA) from the US Treasury Department to establish a process to support this issue.
- A team was formed (SEFIN/Department of Government General Coordination), who, supported by the Consultants, developed methodology, form, and instructions.
- Training modules were developed, and specialized training was provided to officials from SEFIN and other Institutions.
- The FIA were made compulsory for executive proposals, via a Circular letter, and the approval of the Amendments to the Organic Budget Law (OBL).

LESSONS LEARNED

- The commitment and involvement of the authorities from the participating institutions is required for the implementation of these processes.
- Coordinated work among the ones responsible for the planning and budget to prevent duplication of efforts.
- It is necessary to strengthen the technical abilities of governing entities and the rest of the Institutions.
- The generality used to prepare legislative proposals makes it hard to apply the criteria defined in the FIA methodology, and in many cases it is hard to determine a fiscal impact.

CHALLENGES

- Technical Assistance is still being received via the Honduras Millennium Account to complete (2019 formulation) the implementation of the MTEF with all the elements and technical criteria included in the tool.
- Having a standardized costing method to improve BL projections.
- Legal Reform: Organic Budget Law reform bill.
- Commitment of the National congress to institutionalize the FIA in that Government Branch, and that the FIA be a requirement before the discussion of the initiatives.
- We have faces several obstacles, such as administration changes, Government restructuring and, in some cases, duplication of functions in Institutions.

CONCLUSIONS

- The key factor that fosters these process was the passing of the **Fiscal Responsibility Law**, which includes compulsory Fiscal Rules.
 - The Ministry of Finance has introduced these new tools in the guidelines of the budget formation process, however, there is the need to strengthen the legal framework.
- Since it was an unknown issue in the country, the implementation of the MTEF has implied a long process; however, little by little favorable results were obtained; adopting the MTEF as a tool for expenditure planning and programming, institutional culture change.



QUESTIONS?