

Strengthening Medium Term Budget Frameworks

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Outline

- **Definitions**
- **Medium-Term forecasting**
- **Institutional Challenges**
- **Analyzing MTBFs**



Definitions

- **Medium-term budget framework (MTBF)** refers to a set of institutional arrangements for prioritizing, presenting, and managing revenue and expenditure over a period of three–five years.
- **Medium-term expenditure framework (MTEF)** is often used as a synonym of the MTBF concept, although the focus is on multi-year expenditure estimates.
- **MTBFs or MTEFs** constitute part of a wider framework of medium-term fiscal planning and view the MTEF very broadly as the integration of policy, planning, and budgeting within a medium-term perspective.
- World Bank interprets “MTEF” broadly to embrace 3 distinct frameworks:
 - *medium-term fiscal framework encompasses the top-down specification of the aggregate resource envelope and allocation of resources across spending agencies;*
 - *MTBF includes both the bottom-up determination of spending agency resource needs and a reconciliation of these requirements with the resource envelope;*
 - *Medium-term performance framework: emphasis is given to the measurement and evaluation of outputs and outcomes.*

Key Features of MTBFs

Advanced countries

Country	Soc Sec	Coverage			% of CG Spending	Specificity	TIME HORIZON Years	DISCIPLINE	
		Debt Interest	Local Government					Fixed or Flexible	Frequency or Update
AGGREGATE EXPENDITURE CEILINGS									
Sweden	yes	No	T'fers	96%	Total Spending <i>27 Policy Areas</i>	3	3-4 fixed	3rd- 4th year added each year	
Finland	Some	No	No	78%	Total Spending <i>13 Ministries</i>	4	4 fixed	Every 4 year	
Netherlands	Yes	No	T'fers	80%	4 Sectors <i>26 Ministries</i>	4	4 fixed	Every 4 year	
FIXED MINISTERAL PLANS									
United Kingdom	No	No	T'fers	59%	25 Depts	3	3 fixed	Every 3 years	
France	No	Yes	No	35%	30 Missions	3	2 fixed + 1 flexible	Every 2 years	



Coverage and characteristics of MTBFs

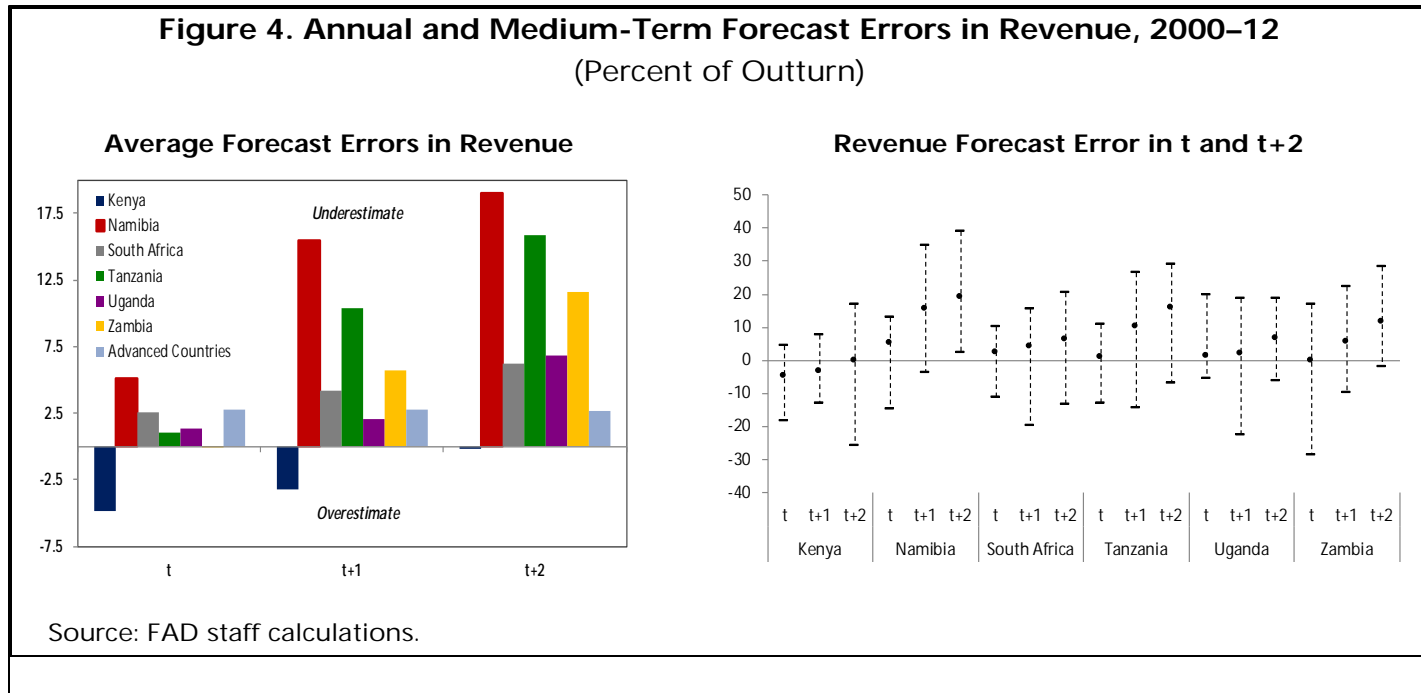
African case studies: characteristics

	Kenya	Namibia	S. Africa	Tanzania	Uganda	Zambia	Advanced Countries*
Date of establishment of MTBF	2000	2000	1998	2000	1998	2004	1980s to 2000s
Lead ministry**	National Treasury and MoP	MoF	NT	MoF and Planning Commission	MoFP	MoFP	Usually MoF
Characteristics and Coverage							
Coverage***	BCG	BCG	GG	BCG	BCG	BCG	CG or GG
Excluded transactions							
Social security	Yes	Yes	Yes	Yes	Yes	Yes	Varied practices
Debt interest	Yes	Yes	Yes	Yes	Yes	Yes	
Time frame	3 years	3 years	3 years	5 years	5 years	3 years	3-4 years
Fixed or flexible framework	Rolling	Rolling	Rolling	Rolling	Rolling	Rolling	Rolling or flexible
Binding or indicative ceilings	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative or binding
Ceilings approved by legislature	Yes	No	Yes	No	Yes	No	In some cases
External aid included	Yes	No	No	Yes	Yes	Yes	Not relevant
Publication of MTEF	Yes	Yes	Yes	No	Yes	Yes	Yes
Share of external aid****	8%	<1%	<1%	39%	39%	10%	N.A.

Notes: BCG = budgetary central government; CG = central government; GG = general government. In the case countries, transfers to local governments are included in the budget.

Medium-Term Forecasting Revenue

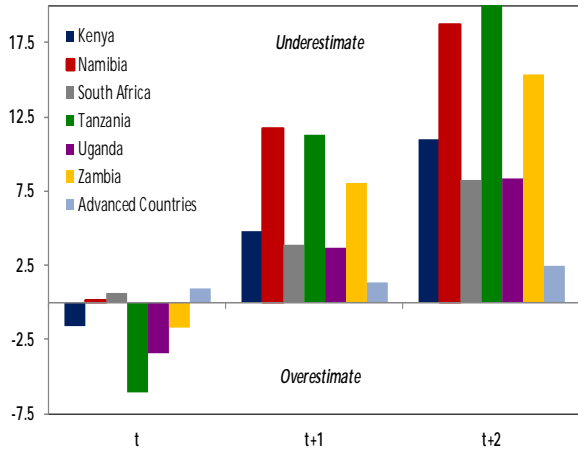
Figure 4. Annual and Medium-Term Forecast Errors in Revenue, 2000–12
(Percent of Outturn)



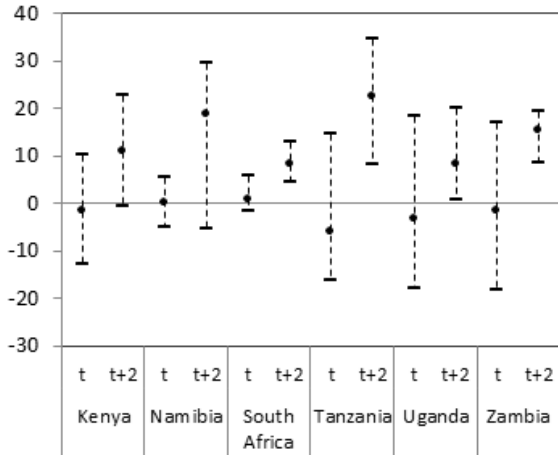
Medium-Term Forecasting Expenditure

Figure 5. Annual and Medium-Term Expenditure Forecast Errors, 2000–12
(Percent of Outturn)

Average Forecast Errors for Expenditure



Expenditure Forecast Error in t and t+2

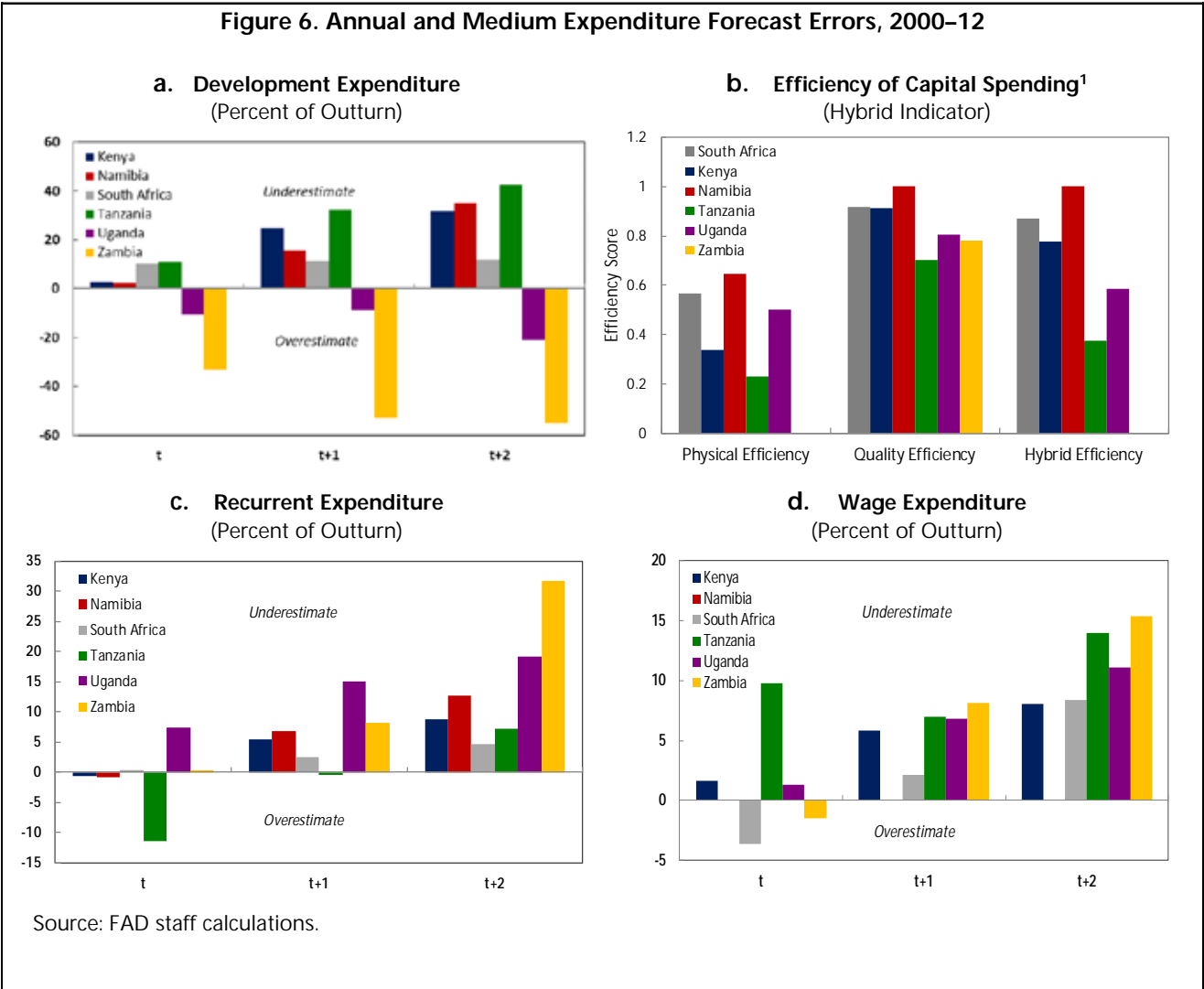


Source: FAD staff calculations.

Medium-Term Forecasting

Expenditure: components

Figure 6. Annual and Medium Expenditure Forecast Errors, 2000–12

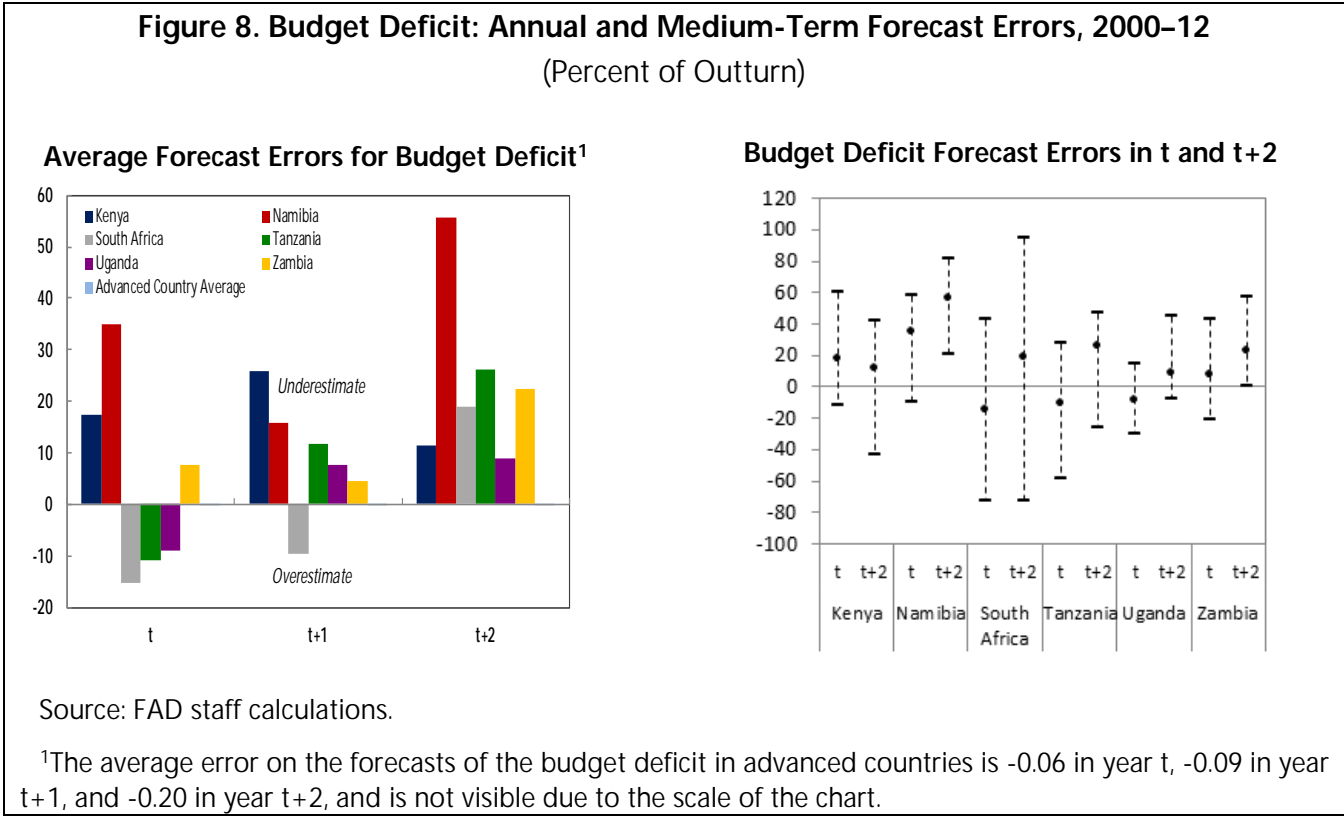


Source: FAD staff calculations.

Medium-Term Forecasting

Budget Deficit

Figure 8. Budget Deficit: Annual and Medium-Term Forecast Errors, 2000–12
(Percent of Outturn)



Challenges to adopting MTBFs

Institutional weaknesses



- **Weak role of the cabinet in budgetary decision-making**
- **Limited impact of national development plans on budgetary decisions**
- **Improving public investment management**
- **Inefficient planning and monitoring of external aid**
- **Inadequate institutions for executing the budget**
- **Underdeveloped parliamentary involvement and oversight**



Analyzing MTBFs

Prerequisites of the MTBFs

- **Clarity and transparency of the MTBF**
 - Does the country have a clear and predictable fiscal outlook over the medium term, and a longer-term vision for some advanced economies.
 - Existence of a credible fiscal strategy, based on accurate and coherent macroeconomic forecasts.
 - A set of binding fiscal rules is another characteristic of an advanced MTBF

- **Credibility of the budget process**
 - How well does the budget reflect national priorities
 - Reliability of spending estimates
 - Nature of spending ceilings
 - Integrity of the budget

Analyzing MTBFs

Prerequisites of the MTBFs

- **Appropriation and budget classification**
 - Appropriation structure of the budget
 - Classification of the budget
 - Chart of accounts compliance with international standards

- **Institutional characteristics of the budget process**
 - Nature of engagement between key players in the budget
 - Challenge function of the Ministry of Finance
 - Cabinet involvement in budget approval
 - Coverage and transparency of budget documents

- **Oversight of the budget by the legislature**
 - Quality of oversight provided by legislature
 - Existence of an independent fiscal council



New framework for MTBFs

Four Phases of the MTBFs

- **Phase I (Pre-MTBF)**
 - No meaningful multi-year perspective
 - Produces annual budget based on traditional line items
 - Budget preparation is driven from the center

- **Phase II (Maturing MTBF)**
 - Basic medium-term expenditure planning framework
 - Expenditure estimates or ceilings in outer years are indicative
 - Link between planning and resource allocation is weak
 - Strategic and development plans are not costed adequately
 - Planning and budgeting functions are poorly aligned



New framework for MTBFs

Four Phases of the MTBFs

























- **Phase III (Maturing MTBF)**
 - An established MTBF with a credible link between planning and budgeting phase
 - Reliable macro-fiscal framework
 - Budget ceilings are effective (binding)
 - Some aspects of program-based budgeting

- **Phase IV (Advanced MTBF)**
 - A mature MTBF that has high level of credibility with stakeholders
 - Well-developed accountability mechanisms for executive branch
 - Strong performance orientation
 - Regular spending reviews

Phases in development of MTBFs

Credible budget process























Characteristics	Pre-MTBF	Elementary MTBF	Maturing MTBF	Advanced MTBF
Credible budget process (continued)				
Integration of capital/development spending	Capital and recurrent budgets are prepared separately 	Capital budget is partially integrated but the planning ministry sets priorities 	Capital budget is fully integrated; the ministry of finance sets priorities on capital spending 	Multiyear capital appropriations are fully integrated in budget 
Extent of in-year revisions to approved budget	Many unauthorized revisions 	Many revisions, authorized by central budget office 	Some revisions, authorized by budget office and legislature 	Revisions to budgets are rare 
Arrangements for managing contingency reserves	Contingency reserves are not used 	Contingency reserves exist, but without well-defined rules on their size/use 	Contingency reserves exist, but rules are not strictly enforced 	Strict rules for managing contingencies 
Appropriation and budget classification				
Appropriation structure	Economic classification; large number of line items 	Economic classification; fewer line items 	Program structure introduced but for information only 	Appropriation by program 
Performance orientation of the budget	None 	Limited 	Performance targets set at program level 	Legislative review of performance targets 
Classification of the budget	Basic economic and administrative classification only 	Classification largely based on national standards 	Classification broadly compliant with international standards 	Classification fully compliant with international standards 

Phases in development of MTBFs

Institutional characteristics



Characteristics	Pre-MTBF	Elementary MTBF	Maturing MTBF	Advanced MTBF
Institutional characteristics of the budget process (continued)				
Devolved authority of line ministries to execute their budgets	Little devolution of authority, with strong central control 	Some devolution of authority, with central control 	Substantial devolution of authority, with central oversight 	Full devolution of authority, with central monitoring of overall spending 
Cabinet involvement in budget approval	Ministry of finance has primary role in preparing and approving budget 	Cabinet approves annual budget, but with limited policy engagement 	Cabinet approves budget ceilings, and annual budget, with substantive policy engagement 	Cabinet approves MTFF, budget ceilings and MTBF 
Coverage and transparency of budget documents	Documents contain basic information only, not published 	Documents provide limited information, restricted public access 	Documents provide substantial information, wide public access 	Documents provide comprehensive information, published on a website 
Oversight of the budget by the legislature				
Effective legislative oversight and consultation	No effective oversight of fiscal strategy or budget by legislature 	Some debates on annual budget bill, but limited consultation with executive 	Pre-budget consultations with the executive 	Legislature is consulted on MTFF and budget, and has powers to amend the budget 
Review of fiscal strategy by an independent agency	None 	Limited review of fiscal strategy, except within the executive 	Informal mechanisms for independent review 	Independent fiscal council established 



Conclusion

Where does that leave the MTEF?

- In *Public Budgeting and Finance (2009)*, S. Schiavo-Campo advises that:
 - “the two ingredients of a potentially successful MTEF approach are gradualism and selectivity, and the two main conditions of success are simplicity and communication”.
- Choose an appropriate variant of MTEF, in line with local institutional capacity
- Within the various reform steps, prioritize the following:
 - Formation of a macro-fiscal analysis and projections unit
 - Focus on a well formulated, realistic annual budget
 - Produce a fiscal strategy paper that has a medium-term perspective/ targets
 - Run a budget process that allows Ministry of Finance to play a challenge function
 - Design the MTEF to facilitate and support good political decision-making
 - Introduce independent oversight of the budget (parliamentary committees)
 - Provide comprehensive budget information (budget appropriation and outturn)
- Approach advanced budgeting features with caution and realism, when fundamentals are well entrenched

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Ambrogio Lorenzetti; The Effects of Good Government on the City Life; Fresco; Palazzo Pubblico, Siena (Italy)

Thank you

