

## **BREAK-OUT SESSIONS ON KEY BUDGET FORMULATION ISSUES**

### **Making medium term budgeting more meaningful**

#### **Introduction**

The Minister of Finance of and ECA government sent a team to various governments to learn about ‘developing an MTEF’. The team was given instructions to find out:

1. What is MTEF?
2. Why do governments develop MTEFs?
3. How should an MTEF be developed—what comes first, etc.?

The team returned from its visits with the following observations:

#### ***1. There really is no such thing as an ‘MTEF’.***

While many governments are doing ‘medium term budgeting’ reform, these reforms look different from place to place. The reforms comprise various elements, but not all governments have all the elements in place. The elements include:

1. Linking the budget to a disciplined, multi-year, national policy document (eg. PRSP)
2. Embedding budget development in a multi-year macro-fiscal framework (with clear deficit targets, etc.), which is also the basis for identifying medium term and annual spending limits for budget users.
3. Introducing multi-year strategic planning in budget users, and making sure that budget proposals are related to strategic plans
4. Improving transparency in budget preparation, by publishing a medium term budget document (or pre-budget statement) before actually preparing the budget. In some governments this document is also presented to Parliament, for their information.
5. Improving the annual budget preparation process, with budget circulars requiring multi-year submissions be developed within clear and ‘hard’ budget ceilings (limits).
6. Improving the quality of the annual budget preparation process, with budget circulars requiring greater ‘policy’ information (some governments even structuring their budgets to show objectives, performance measures, etc.).
7. Strengthening capital budgeting. Some governments concentrated on improving their selection, costing and monitoring of capital projects as part of their ‘MTEF’ reforms.
8. Some medium-term budget reforms also included reforms to the cash and procurement management process, with an emphasis on extending the time horizons for planning and ensuring better ‘reliability’ of resource access in the budget year.
9. Introducing stronger budget reporting for accountability: In many governments the medium-term budget formulation reform also led to the introduction of non-financial reporting and monitoring, with a distinct ‘policy’ focus in budgeting).

#### ***2. Governments develop these reforms for different reasons-with different results.***

The team reported three major goals of medium-term budget reforms:

1. To bring some *reliability and discipline to the budget*, to ensure that budgets are executed as they are formulated and that expenditures do not exceed revenues over a multi-year period.
2. To *allocate resources more strategically*, with an aim of matching budgets with multi-year policy goals.
3. To *create incentives for managers to be more efficient with resources*. The reasoning is that a multi-year framework allows room to create incentives for managers to be more cost efficient with resources.

The team noted that all of the governments were actually dealing with the same fundamental problem: over-expenditure and/or major differences between actual expenditures and budgets (which undermined the value of the budget).

Governments that focused on this problem first seemed to have more success. The team noted that the more successful governments typically took about three years to bring reliability and discipline to the budget and only then began to deal with the policy-centered issues of allocative efficiency and developing incentives for cost efficiency.

### ***3. There are clear ideas about how to progress with the reform.***

The team gave a report to the Minister with clear ideas on how to progress with reform:

1. First, the Minister should think of the reform as a multi-element initiative, with many interventions (not as one ‘MTEF’ reform); the different reform elements should not be introduced all at once either, but in a carefully sequenced manner.
2. Second, the ‘goal’ should drive which reform elements come first; they strongly suggested that the Minister focus on the goal of budget reliability and discipline first.
3. Third, the reform elements should not be seen as purely ‘technical’—and the reform itself should not be seen as the work of the Ministry of Finance alone. Reform elements require organizational change in government and were only achieved when reform networks were established amongst multiple different entities.

### **Questions for discussion:**

The Minister has asked that an independent group assess the team’s advice. He is particularly interested if you agree with the three ‘clear ideas’ they present:

1. Do you agree that there are multiple ‘elements’ of a medium term budgeting reform? Do you agree with the list of ‘elements’ the team presents?
2. Do you feel the ‘goals’ they identify are correct, and that reliability and discipline should precede the other goals as the focus of reform? If so (or if not) which elements should be introduced at the start of a reform? (If you can, identify a sequenced plan for introducing all of the elements).
3. Do you agree that the reform needs to go beyond the ‘technical’ dimension? What non-technical issues do you think the Minister should be particularly aware of?
4. Do you agree that the reform needs to involve more than the Ministry of Finance? Who else do you think should be involved? When should they be involved (from the start?) and how?