



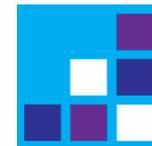
PUBLIC FINANCE

Beyond the Annual Budget – Global Experience with MTEFs

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**Governance &
Public Sector Management**

Better Results from Public Institutions

Why undertaking an MTEF study?

- ❑ **MTEFs – among PFM megatrends**
 - 2/3 of all countries are known to have an MTEF in 2008
 - World Bank has been engaged with MTEF reforms in 109 LICs and MICs since the 1990s
- ❑ **MTEF still controversial among PFM practitioners**
 - Lack of quantitative analysis establishing causality
- ❑ **Questions...**
 - Do MTEFs work?
 - Should an MTEF be a common element of PFM systems given differences in country circumstances?
 - Where an MTEF is appropriate, what lessons can be drawn about and what guidance provided on the design and implementation of MTEFs in the context of broader advice about PFM reform

What MTEFs might do?

- ❑ **Address shortcomings of annual budgeting** – short-sightedness, conservatism (budget rigidities), parochialism (competition for incremental resources)
Multi-year planning takes future costs and benefits into account
Strategic, forward-looking approach - basis for establishing and shifting priorities
Collaborative approach to achieving agreed objectives than narrow self-interest
- ❑ **Contributes to high-level PFM objectives**
MTFF => + fiscal discipline -----> control
MTBF => + allocative efficiency ----> priorities
MTPF => + technical efficiency ----> service delivery

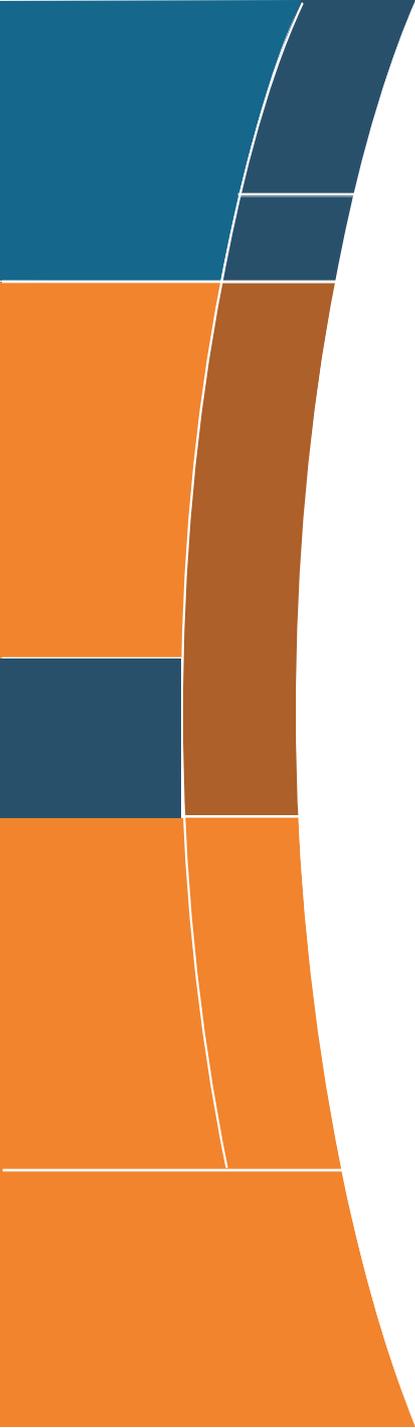


What kind of analytical approaches to take?

- ❑ **Event studies** summarize what happened around the time of MTEF implementation (before and after)
- ❑ **Econometric analysis** attempts to explain the impact of MTEFs, controlling for other determinants of fiscal discipline and efficiency
- ❑ **Case studies** can provide additional insight into the impact of MTEFs, especially insofar as qualitative, non-measurable influences are concerned
- ❑ **Bank projects** – learning from success and failure

How did we go about it?

- **Database** describing MTEF status of 181 countries in every year over the period 1990-2008
- **Classification** is based on key indicators and views of PFM experts
- **Countries** are classified:
 - 0=no MTEF, 1=MTEF, 2=MTBF, 3=MTEF
- Identify new MTEFs by stages, transitions between stages, and (only a few) reversals
- Pilot MTBFs are recorded as MTEFs (but there is some analysis of pilots)
- Externally imposed multi-year fiscal frameworks (e.g., those underpinning IMF programs) are not recorded as MTEFs



What did we look for?

❑ Fiscal discipline

fiscal balance

❑ Allocative efficiency

total expenditure volatility

health expenditure share

health expenditure volatility

❑ Technical efficiency

cost effectiveness of health expenditure

❑ But data constraints are significant

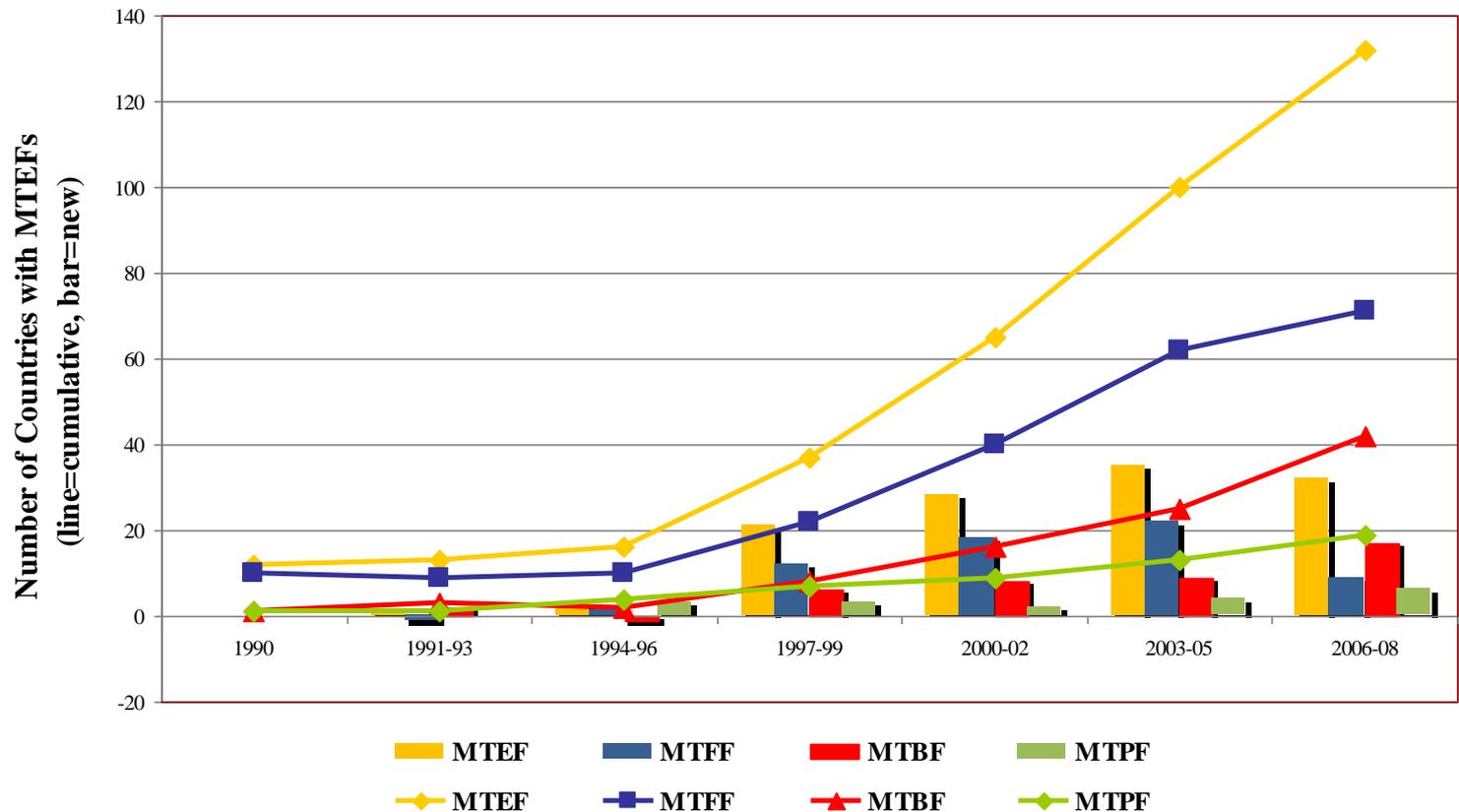
Data coverage, central vs. general government

Expenditure composition, limitations of GFS

Expenditure outcomes, health and education

What did we find?

Global MTEF Adoption 1990-2008

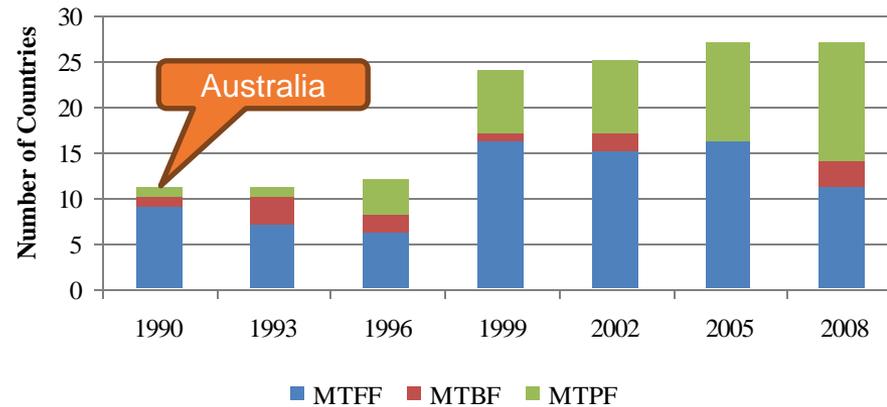


1990 -- 11 MTEFs, 1 MTBF (Denmark) and 1 MTPF (Australia)

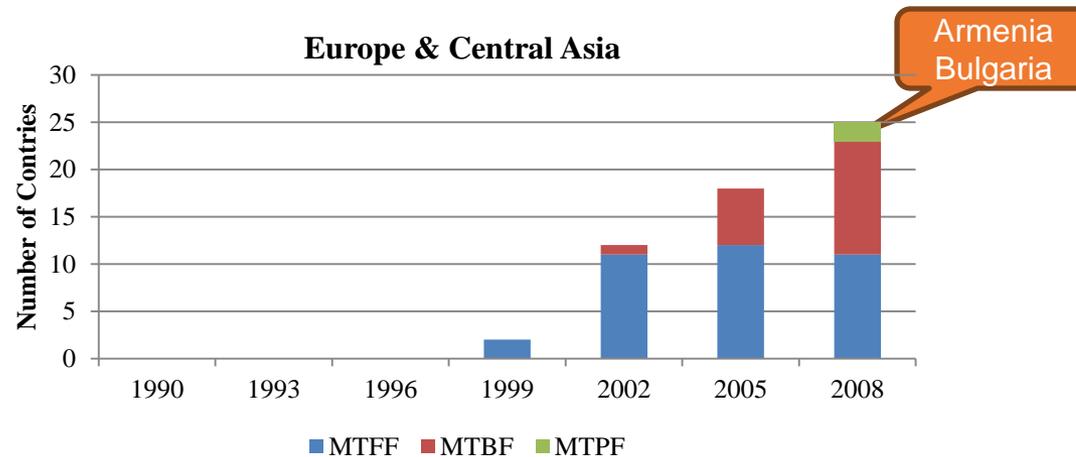
2008 -- 132 MTEFs, 71 MTFFs, 42 MTBFs and 19 MTPFs

How does *Europe & Central Asia* compare?

Advanced Economies



Europe & Central Asia



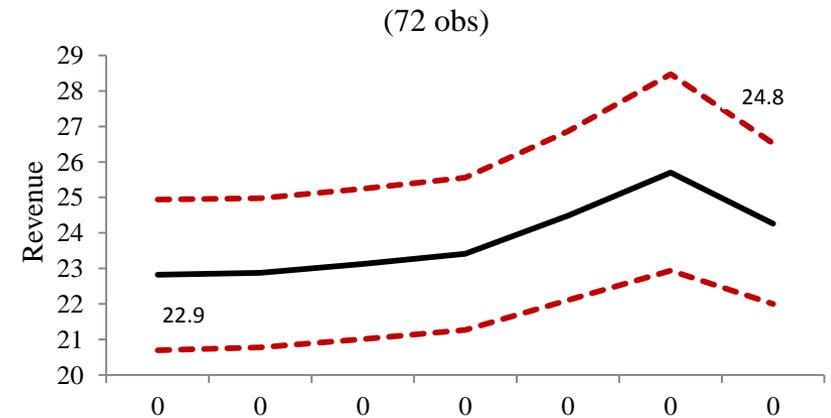
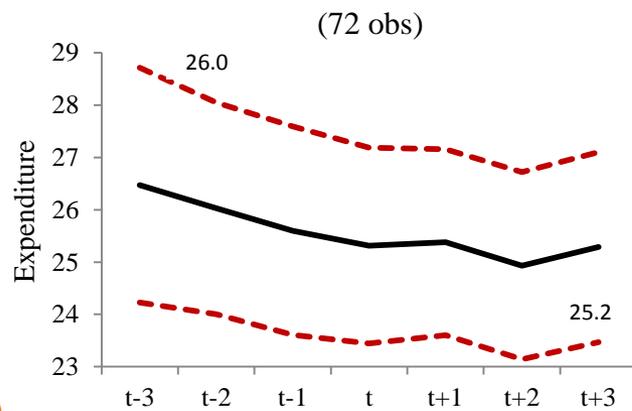
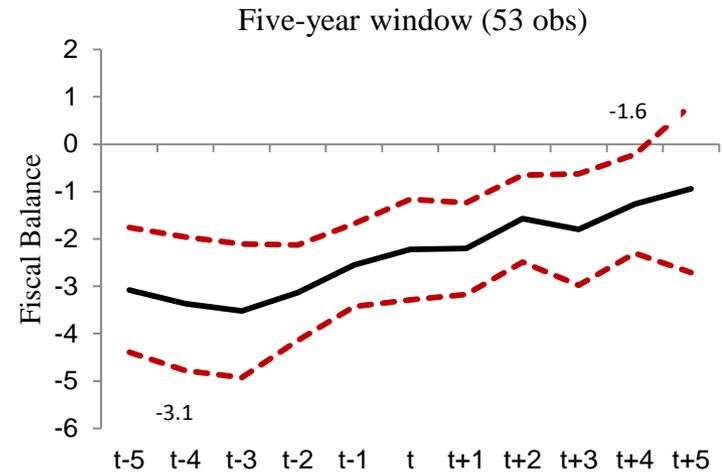
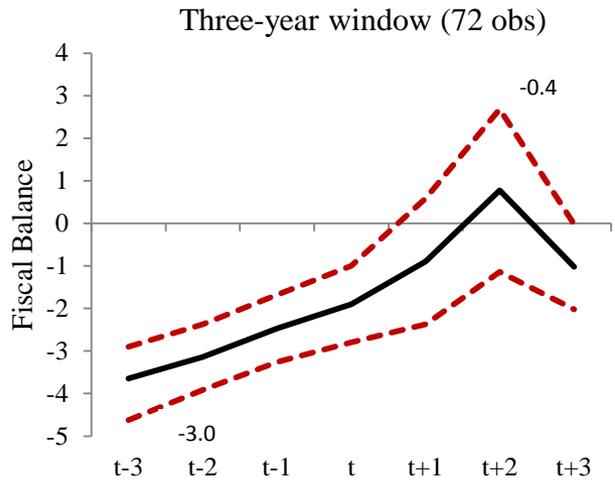
THE MTEF state of World



JULY 2011

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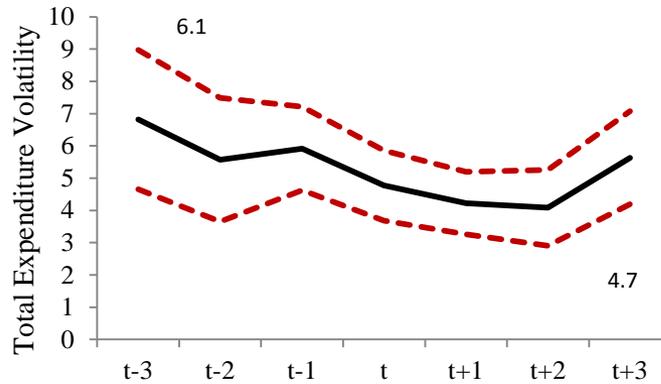
MTEFs, Fiscal Balance, Expenditure and Revenue



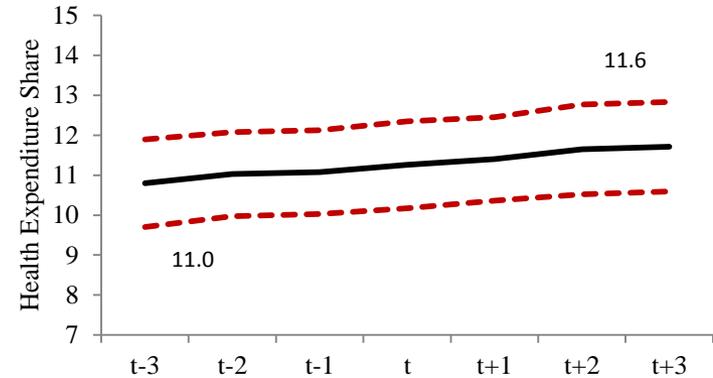
— mtef - - - 95% conf. interval

MTEFs and Efficiency

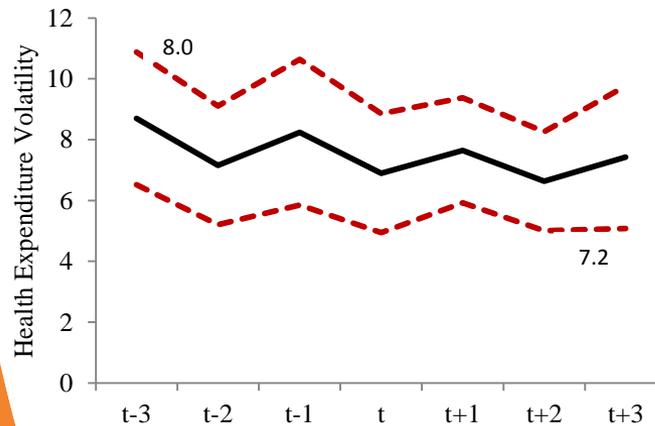
Total expenditure volatility (72 obs)



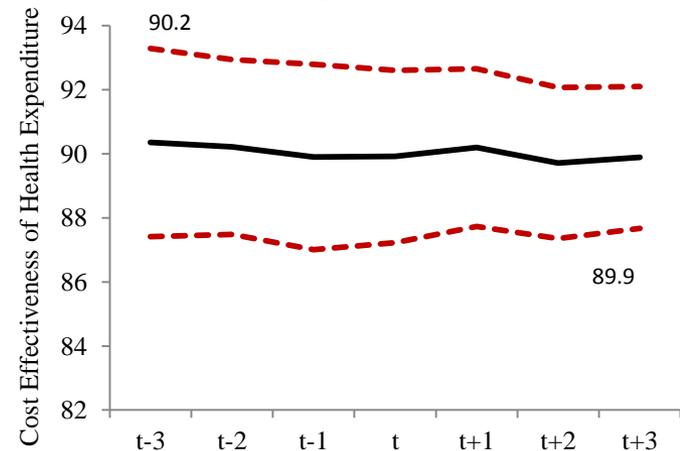
Health expenditure share (72 obs)



Health expenditure volatility (67 obs)



Cost effectiveness of health expenditure (41 obs)



— mtef - - - 95% conf. interval

Econometric Analysis and Results – Approach

❑ **Fiscal performance = f (MTEF status, control variables)**

Control variables derived from empirical literature on determinants of fiscal performance

❑ **Serious econometric issues have to be addressed**

- Reverse causality—Is MTEF implementation a reaction to good fiscal performance?

Response: Instrumental variables

- Omitted variables—Is something else going on that affects fiscal performance (and possibly MTEF implementation)?

Response: Country and time fixed effects

❑ **Conditioning variables influence the link between MTEF and fiscal balances**

Separate regressions for MTEF, MTBF and MTPF adoption (which are 0,1 variables)

Econometric Results

- **MTEFs have a strong, positive effect on the fiscal balance**
 - The effect gets stronger with move from MTFF to MTBF to MTPF (but MTPF has too large an effect)
 - Significant control variables—oil(+), conflict(-), aid(-)
 - Significant conditioning variable—OECD(+) for MTPF only
- **MTEFs have a significant positive effect on total expenditure volatility, the health expenditure share and health expenditure volatility**
 - The effect gets stronger with move from MTFF to MTBF to MTPF (except MTPFs have no additional effect on health expenditure volatility)
 - Marginal effect of MTBF over MTFF is surprisingly small
 - Significant control variables—oil, aid, inflation (all + for volatility (because they are volatile?))
- **Only MTPFs have a significant impact on the cost effectiveness of health expenditure**
 - Significant control variable—inflation(+)

Moving Beyond the Data

❑ Empirical work bolsters the case for MTEFs—but better to be well designed

Coverage, timeframe, disaggregation, status of ceilings and forward estimates, use of margins, institutional responsibilities

❑ What are the broader requirements for effective MTEFs?

- Commitment to new approach to budgeting
- Organizational adaptability and technical capacity
- Appropriate macro-fiscal policies and institutions
- Sound budget systems and properly sequenced reforms

❑ These have been identified in previous studies

❑ Review of Bank experience and case studies can throw new light on these requirements

—————→ Implications for Bank Work...

Questions?

