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Medium-Term Budget Frameworks in Selected  
Sub-Saharan African Countries

by Richard Allen, Taz Chaponda, Lesley Fisher, and Rohini Ray

I N T E R N A T I O N A L M O N E T A R Y F U N D

**IMF Working Paper**

Fiscal Affairs Department

**Medium-Term Budget Frameworks in Sub-Saharan Africa**

**Prepared by Richard Allen, Taz Chaponda, Lesley Fisher, and Rohini Ray**

Authorized for distribution by Carolina Renteria

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**Abstract**

More than 15 years ago, many countries in sub-Saharan Africa embarked on a program of budgetary reform, an important element of which was a medium-term budget framework (MTBF). This working paper focuses on the performance of these frameworks in six countries—Kenya, Namibia, South Africa, Tanzania, Uganda, and Zambia. It assesses the effectiveness of MTBFs in achieving improved fiscal discipline, resource allocation, and certainty of funding, as well as wider economic and social criteria such as poverty reduction and more efficient public investment. In most countries, early successes were not sustained, and budgetary outcomes did not improve, partly for technical reasons, such as poor data and inadequate forecasting methodologies, but also because the reforms were largely supply driven. The paper argues that the development of MTBFs typically falls into four distinct phases. To make the transition from one phase to the next, developing countries should focus on building their capability in macro-fiscal forecasting and analysis, and in improving the credibility of the annual budget process.

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**ACRONYMS**

BCG	Budgetary Central Government
CABRI	Collaborative Africa Budget Reform Initiative
CG	Central Government
GG	General Government
HIPC	Heavily-Indebted Poor Countries
IFIs	International Financial Institutions
MDRI	Multilateral Debt Relief Initiative
MoF	Ministry of Finance
MoFP	Ministry of Finance and Planning
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
MTPF	Medium-Term Performance Framework
ODI	Overseas Development Institute
PBO	Parliamentary Budget Office
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRSP	Poverty-Reduction Strategy Paper
PSR	Public Service Reform
SSA	Sub-Saharan Africa
TA	Technical Assistance
UNDP	United Nations Development Program

## I. INTRODUCTION<sup>1</sup>

More than 15 years ago, several sub-Saharan Africa (SSA) countries embarked on a program of budgetary and fiscal reform that included the establishment of a medium-term budget framework (MTBF). The objectives of this reform were to enhance fiscal discipline, achieve a better alignment of resource allocation with national priorities, and improve the certainty of funding, both internal and external, over the medium term. The question remains whether the introduction of MTBFs—which, as explained later, appears to have been substantially driven by external pressures from the development partners (sometimes called “supply driven” reform)—achieved its desired objectives, and whether the initial benefits have been sustained.

This working paper provides an assessment of the performance of MTBFs in six selected countries of the SSA during the period 2000–12. These countries—Kenya, Namibia, South Africa, Tanzania, Uganda, and Zambia—were chosen because they share the “Anglophone” tradition<sup>2</sup> of public administration and budgeting, have a longer experience of implementing MTBFs, and provide readily available macroeconomic and fiscal data for the period under review.<sup>3</sup> The working paper uses two methods to assess the performance and effectiveness of the MTBFs: first, a descriptive analysis of the reliability and timeliness of macroeconomic and fiscal forecasts, without which a credible budget and MTBF cannot be prepared; and, second, an evaluation of the effectiveness of the countries’ budgetary and planning institutions guided by a questionnaire and based mainly on secondary sources of information.<sup>4</sup> The analysis contrasts the budgetary institutions and practices in the case countries with those in advanced and emerging countries to draw lessons that might be applied in strengthening the performance of MTBFs in the region.

The paper is structured as follows. Section II defines an MTBF and discusses its main design features. Section III describes the historical development of MTBFs in the SSA region. Section IV sets out an empirical analysis of macroeconomic and fiscal forecasting performance, a core

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<sup>1</sup> The authors would like to thank Florence Kuteesa for her substantial contribution to the early work on this paper, as well as Rachel Wang for technical support. The authors are also grateful to Jorge Alvarez, Fabien Gonquet, Richard Hughes, Roland Kpodar, Daniela Marchettini, Carolina Renteria, Jiangyan Yu, and other IMF colleagues, for their helpful comments and suggestions.

<sup>2</sup> Sometimes called the “Westminster” system. All the case countries were onetime British colonies and as such used British laws and systems of public administration and financial management. A study by Lienert (2003) demonstrates that there are many differences between the “Anglophone” and “Francophone” (or “Napoleonic”) systems of public finance, especially in the area of budget execution, i.e., the procedures adopted for implementing, controlling, and accounting for spending and revenues.

<sup>3</sup> Though Francophone sub-Saharan African countries have been slower in implementing MTBFs, they have been catching up with the Anglophone countries in recent years, notably in the West African Economic and Monetary Union (WAEMU), and the Economic Community of Central African States (CEMAC). Both monetary unions have adopted directives (respectively in 2009 and 2011) requiring all member countries to prepare MTBFs (respectively by 2017 and 2019).

<sup>4</sup> These sources include research studies referred to in this paper (e.g., Brumby and Hemming, 2013, Harris et. al., 2013, Schiavo-Campo, 2009, World Bank 2013); technical assistance (TA) reports prepared by the IMF’s Fiscal Affairs Department (FAD), the World Bank and other organizations; Public Expenditure and Financial Accountability (PEFA) assessment reports; and the accumulated knowledge of FAD staff on budgeting systems and MTBFs in many advanced and developing countries.

component of the MTBF, in the six countries. Section V summarizes the overall performance of MTBFs in the case countries in delivering fiscal discipline, improved resource allocation, and certainty of funding, together with the factors that have attributed to this variable performance. Section VI sets out a theory of the global development of MTBFs divided into four phases, based on observations of how MTBFs have progressed since the mid-20<sup>th</sup> century. Finally, Section VII draws conclusions and makes recommendations on how the case countries as well as other countries with similar characteristics can address current challenges and enhance the further development of their MTBFs.

## **II. DEFINITION AND DESIGN FEATURES OF MEDIUM-TERM BUDGET FRAMEWORKS**

This paper uses the term “medium-term budget framework” to refer to a set of institutional arrangements for prioritizing, presenting, and managing revenue and expenditure over a period of three–five years (see, for example, Harris et. al., 2013, and Brumby and Hemming, 2013). This is a broad definition, however, that incorporates a wide range of approaches to extending the budget horizon beyond a single year. Indeed, across the literature there is no commonly agreed definition of an MTBF. The term “medium-term expenditure framework” (MTEF) is often used as a virtual synonym of the MTBF concept. Holmes and Evans (2003), for example, interpret MTBFs or MTEFs as constituting 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.” The focus of previous studies, and the present one, has been on the performance of MTBFs prepared by the central government,<sup>5</sup> which is most critical for the overall management of public finances.

A recent study by the World Bank (2013) interprets the term “MTEF” broadly to embrace three distinct frameworks: (i) a medium-term fiscal framework (MTFF) encompassing the top-down specification of the aggregate resource envelope and the allocation of resources across spending agencies; (ii) an MTBF which additionally includes both the bottom-up determination of spending agency resource needs and a reconciliation of these requirements with the resource envelope; and (iii) a medium-term performance framework (MTPF) in which emphasis is given to the measurement and evaluation of the outputs and outcomes of spending programs. The idea is that countries should progress from one stage to another over time, in a series of “platforms,” as their capacity develops, an approach to reform that is explored in the concluding section of this paper. As discussed below, most SSA countries, including the six case countries, still face challenges in implementing the first two of these stages, whereas many advanced countries have moved into the third stage.

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<sup>5</sup> With a few exceptions (South Africa, for example), the preparation of medium-term budgets by regions or local governments is not well developed in SSA countries.

## Coverage and characteristics of MTBFs in advanced countries

MTBFs have three basic purposes: to reinforce aggregate fiscal discipline, to facilitate a more strategic allocation of expenditure, and to encourage a more efficient inter-temporal planning and execution of resources, including more binding fiscal and expenditure decisions (Harris, et. al., 2013; Brumby and Hemming, 2013). As well as a multiannual perspective, MTBFs share several other core characteristics, including a close linkage with the process of setting fiscal policy objectives, targets and rules; the establishment of spending ceilings; and the allocation of resources through appropriations in the annual budget law. However, looking across practices in a range of advanced countries, the design features of MTBFs show a wide variation in terms of their coverage of government expenditure and the excluded areas, the unit of planning and control, the design of the expenditure ceilings (e.g., whether they are binding or indicative), the number of years covered in the forward projections, and the frequency with which the MTBF is updated (Table 1). There is thus no unique “model” of an MTBF that represents good international practice, but rather a range of alternative approaches. Moreover, in some advanced countries the design features of the MTBF have changed substantially over time, as practical experience of applying and enforcing MTBFs was gained.<sup>6</sup>

**Table 1. Key Features of Medium-Term Budget Frameworks in Select Countries<sup>1</sup>**

Country	Soc Sec	Coverage			Specificity	TIME HORIZON Years	DISCIPLINE	
		Debt Interest	Local Government	% of CG Spending			Fixed or Flexible	Frequency or Update
<b>AGGREGATE EXPENDITURE CEILINGS</b>								
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
<b>FIXED MINISTERIAL PLANS</b>								
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

Source: FAD staff.

<sup>1</sup>In the French example, a “mission” comprises a high-level policy area or program.

<sup>6</sup> In the U.K., for example, the proportion of central government expenditure covered by the MTBF reduced from around 87 percent in the early 1980s to 60 percent today in order to increase control of certain areas of spending (“annually managed expenditure,” AME); the method of planning switched from a real, cash basis to a nominal, accrual basis; and the unit of control changed from total primary spending to 25 individual ministerial budgets.

### **Coverage and characteristics of MTBFs in the case countries**

The main design features of MTBFs in the six case countries are summarized in Table 2. These characteristics differ quite considerably from the advanced countries' models presented above. Some of the features of MTBFs reflect the relative inexperience of SSA countries in using MTBFs (and MTFs) as a mechanism of fiscal discipline and budget allocation, and their under-developed institutions. For example, many advanced countries make use of binding multiannual ceilings on spending, and of ceilings that are fixed for a period of years rather than being rolled over every year. In the case countries, with the exception of South Africa, the method of calculating expenditure estimates for the out-years of the MTBF is usually quite basic: either the same figures as in the first (budget) year are used, or a simple extrapolation is made by adding an inflation adjustment to the budget year estimates.

Except for South Africa, the coverage of the MTBFs in the case countries is usually restricted to the central government budget. In contrast, some advanced countries include social security organizations and other extra-budgetary entities, as well as local governments, in the coverage of their MTBFs. It is difficult to determine the percentage of public expenditure covered by the case countries as they only report on the central government's budget. All these countries except Tanzania publish their MTBFs, but generally do not provide as much analysis of the data (e.g., a historical comparison of the projections of spending and revenue with the outturns) as their counterparts in advanced countries. External aid is a significant component of the budget in Kenya, Tanzania, Uganda, and Zambia.<sup>7</sup> In other SSA countries, there is also a wide variation in the design and use of MTBFs.<sup>8</sup>

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<sup>7</sup> The share of external aid in the budgets of Namibia and South Africa is less than 1 percent.

<sup>8</sup> In Botswana, for example, significant progress has been made on setting fiscal targets and improving the quality of the medium-term macro-fiscal forecasts, but the development of an MTBF remains on the drawing board. In Ghana, the MTBF has existed for many years as a paper exercise, but the numbers for spending in the out-years are generated in a mechanical way and have limited impact on policy decisions by the government.



**Table 2. Characteristics and Coverage of Medium-Term Budget Frameworks in the Case Countries**

	<b>Kenya</b>	<b>Namibia</b>	<b>S. Africa</b>	<b>Tanzania</b>	<b>Uganda</b>	<b>Zambia</b>	<b>Advanced Countries*</b>
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
<b>Characteristics and Coverage</b>							
Coverage***	BCG	BCG	GG	BCG	BCG	BCG	CG or GG
Excluded transactions							Varied practices
Social security	Yes	Yes	Yes	Yes	Yes	Yes	
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.

Source: FAD staff.

\*This column is based on the sample of advanced countries shown in Table 1.

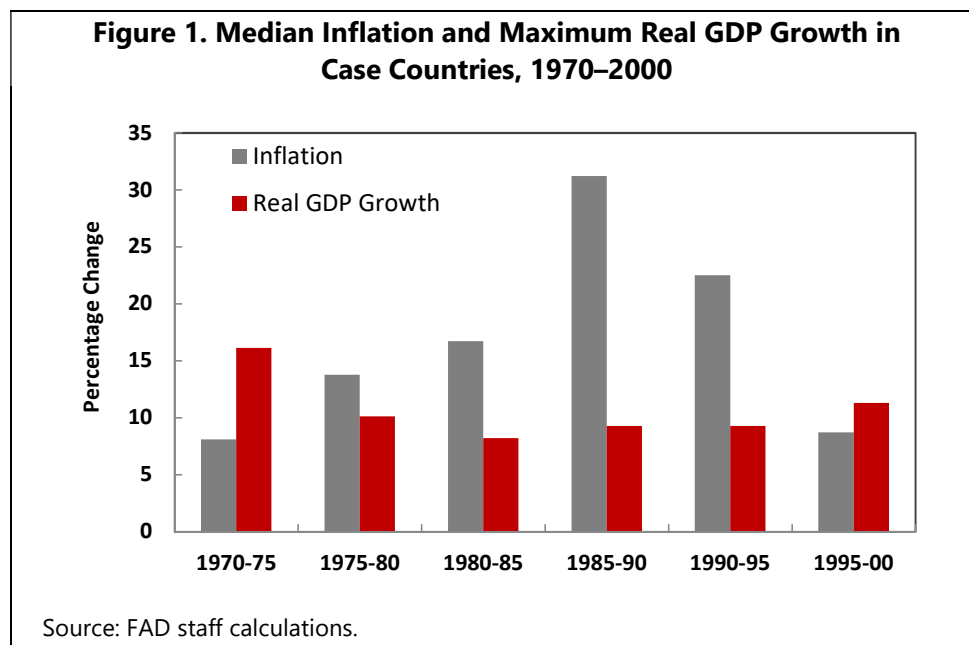
\*\*MoF = Ministry of Finance; MoP = Ministry of Planning; MoFP = Ministry of Finance and Planning.

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

\*\*\*\*As a percentage of central government expenditure in 2012.

### III. HISTORICAL DEVELOPMENT OF MEDIUM-TERM BUDGET FRAMEWORKS IN SUB-SAHARAN AFRICAN COUNTRIES

The development of MTBFs in the case countries occurred at various periods and with varying speed between the late 1990s and the early 2000s. Many SSA economies, not only among the case countries, had been brought to the point of collapse by years of economic mismanagement, adverse external shocks, high levels of inflation, and fiscal deficits, culminating in the debt crises of the 1980s, and high and increasing levels of poverty. Economic performance was poor and unstable during the late 1980s and early 1990s (Figure 1), with some countries (e.g., Uganda and Zambia) experiencing periods of negative growth. Meanwhile, inflationary pressures in the region were severe: in Uganda and Zambia, for example, the average annual inflation rate reached a peak of 200 percent and over 150 percent respectively. Newly elected governments in some of the focal countries committed themselves to address the adverse consequences of economic mismanagement.<sup>9</sup>



MTBFs were introduced in the focal countries both as a response to this new agenda for economic reform, and because of pressure exerted by the international financial institutions (IFIs) and other development partners. This pressure included demands for reliable policy and

<sup>9</sup> In the case of Uganda, Tumusiime-Mutebile (2010) has observed that “the economy was [also] enmeshed in a web of administrative controls over imports, access to foreign exchange, the price of exports and consumer goods, and interest rates. These controls severely distorted incentives for productive activity. The viability of a business became dependent upon the whims of government officials who controlled access to vital production inputs. As a result, many businesses ground to a halt because of shortages of imported goods and spare parts. The shortage of inputs, combined with the high rates of inflation, made long-term business planning almost impossible, with the result that private investment in the Ugandan economy had virtually ceased by the mid-1980s.”

expenditure priorities that would ensure effective use of debt relief under the heavily-indebted poor country (HIPC) debt relief initiative, as well as increased use of budget support (Holmes and Evans, 2003). Further impetus came from the demands of non-governmental organizations for enhanced transparency and accountability in the use of public resources. Since the MTBFs were not primarily introduced to satisfy domestic needs and demands, but largely as a means of satisfying the donors, their capacity for improving the countries' fiscal performance was limited.

The development of MTBFs was also part of a broader program of public service reform (PSR) implemented by many SSA countries in the 1990s. PSR programs were strongly supported by the IMF, the World Bank, UNDP, and other development partners. The public sector in most of these countries had become bloated and inefficient.<sup>10</sup> A report by the Economic Commission for Africa (2003) notes that PSRs were partly designed to maintain macro-fiscal stability, lower inflation, cut deficit spending, and reduce the scope and cost of government, notably by slicing the public service wage bill. Many of the programs and loans negotiated with the World Bank and the IMF during this period included structural benchmarks and performance criteria to reduce the number of civil service positions, restructure the public service, privatize public enterprises, and enhance public service capacity.

In the late 1990s and early 2000s a close connection was established between the development of the HIPC debt relief initiative, and work on building MTBFs (Holmes and Evans, 2003; Simson, 2012). Launched in 1996, the HIPC initiative provided a framework for all creditors to provide debt relief.<sup>11</sup> One of the requirements of the HIPC program was the development of a mechanism<sup>12</sup> for channeling budgetary and external resources into a set of priority sectors whose spending was deemed to be effective in reducing poverty. In addition, the UNDP launched a set of long-term millennium development goals (MDGs) which emphasized the importance of poverty reduction and required donors to provide aid linked directly to the attainment of these goals. At the same time, development partners, led by the World Bank, demonstrated interest in shifting the disbursement modality of external aid from project aid to budget support, thus motivating governments to strengthen their public financial management (PFM) systems.<sup>13</sup>

The development of MTBFs in SSA countries, including the case countries, coincided with the above-mentioned initiatives. Technical assistance provided by the World Bank and several other international development partners focused on establishing MTBFs in countries that were part of the HIPC initiative, with the aim of channeling budgetary resources into poverty-reducing areas

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<sup>10</sup> Lufunyo (2013) describes civil service institutions in Africa at that time as "oversized, unresponsive, rule-bound or with not enough effective rules, low incentives, driven by corruption or patronage (or both) and red tape."

<sup>11</sup> The HIPC initiative was succeeded by the Multilateral Debt Relief Initiative (MDRI) in 2006–07. MDRI provided 100 percent relief on eligible debt by the IMF, the World Bank and the African Development Bank.

<sup>12</sup> Poverty-Reduction Strategy Papers (PRSPs).

<sup>13</sup> The conditions and benchmarks attached by development partners to the loans and grants they provided to countries of the region focused on four core areas: fiscal management (expenditure control, accounting, and auditing), tax reform, financial sector reform, and public sector governance.

within a coherent multi-year macroeconomic and fiscal framework. Schiavo-Campo (2009) noted that, strongly encouraged by the World Bank “the MTEF spread like hot butter and by the end of the century it had become well-nigh impossible to find any aid-supported program of public management reform that didn’t call for development of an MTEF.”

Unfortunately, these initially promising results were not sustained. Several studies have pointed to the challenges that arose from the attempt to implement MTBFs and other PSR initiatives in the region. These challenges included multiple accountability, inadequate resource allocation, unreliable flows of external aid, and weak institutional capacity (Economic Commission for Africa, 2003 and 2010; Hope, 2012; Schiavo-Campo, 2009; UNDP, 2013; and World Bank, 2006). Similarly, the introduction of MTBFs did not yield sustained improvements in fiscal responsibility or predictable funding over the medium term, contrary to the predictions of the early reformers. Political commitment to sustaining the momentum of the MTBF reforms also weakened in some countries (CABRI, 2013; Whitworth and Williamson, 2010).

A recent comparative study of budgeting in ten African countries (Haruna and Vyas-Doorgapersad, 2016)<sup>14</sup> concludes that the adoption of the MTEF was a move in the right direction but tended to ignore contextual realities, thus adding weight to the view of Hourerou and Taliercio (2002) that MTEFs as implemented in Africa “are sound conceptually but flawed operationally.” As discussed in Section V below, limited progress has been made in linking MTBFs to wider indicators of economic and social progress, and improved public investment management. Considering that the MTBFs were generally of poor quality and poorly designed, as well as being largely supply driven initiatives, their mixed performance is unsurprising.

#### **IV. CREDIBILITY OF MACROECONOMIC AND FISCAL FORECASTS**

This section examines the performance of the case countries in making multiannual projections of the main macroeconomic indicators (notably real GDP and inflation) and of fiscal indicators (government revenue including donor aid, and budgetary spending on goods and service, civil service salaries, and capital investment projects, as well as the budget deficit).

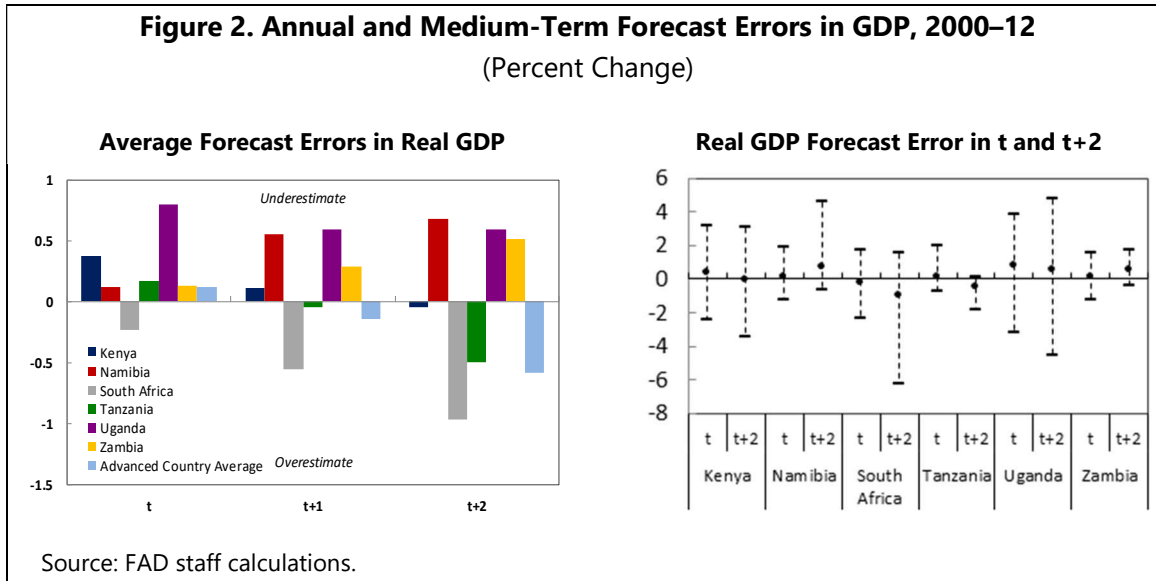
##### **A. Macroeconomic Forecasting**

Macroeconomic forecasting is an essential tool for preparing budget estimates of revenue and expenditure, and for assessing the influence of macroeconomic variables on fiscal outcomes. The challenges facing the case countries in making accurate projections of expenditure and revenue over the medium term can partly be attributed to persistent weaknesses in macroeconomic forecasting—particularly inflation—as discussed below.

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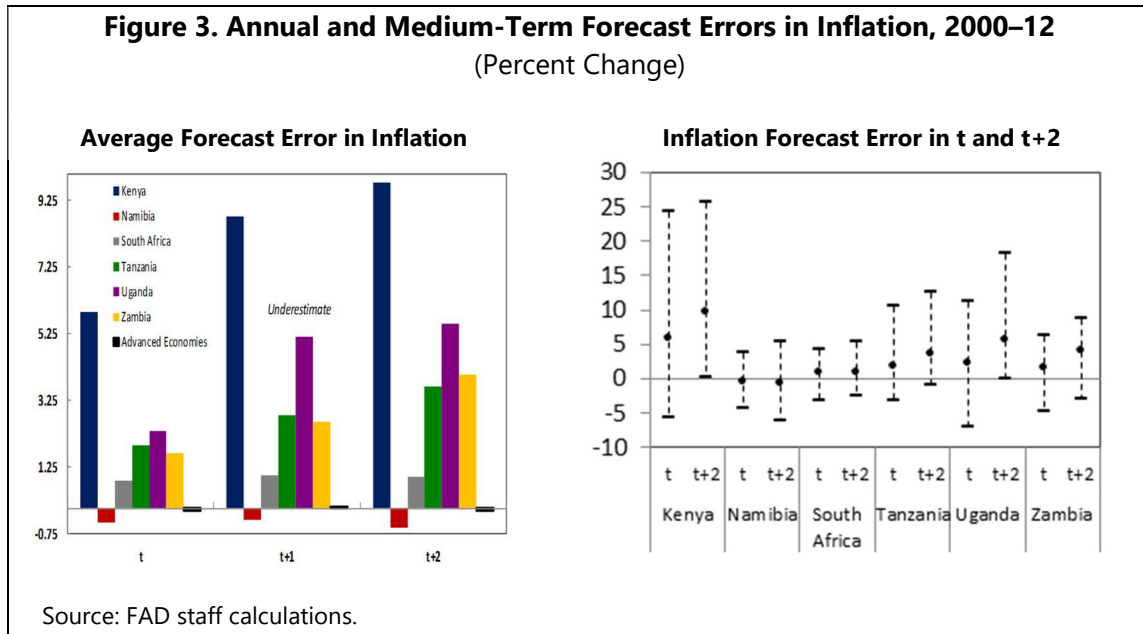
<sup>14</sup> The ten countries surveyed are Botswana, Cameroon, Ghana, Kenya, Malawi, Rwanda, South Africa, Tanzania, Uganda, and Zimbabwe. See especially the overview chapter by Haruna on “Public Budgeting and Fiscal Sustainability in African Nations: Opportunities and Challenges in Development Management.”

The credibility of GDP forecasts has varied over the period under study, and from country to country. Figure 2 shows that Kenya, Namibia, Uganda, and Zambia have demonstrated a consistent bias toward underestimating GDP, while South Africa tends to overestimate GDP. The chart also shows a comparison with a sample of advanced countries.<sup>15</sup> As might be expected, in all the case countries, forecast errors become larger as the forecast period extends. Since the downturn of 2009, successive forecasts have predicted a recovery in growth rates that did not materialize.



Forecasts of inflation in the case countries have been substantially underestimated (Figure 3). In most cases, when preparing the medium-term term budget, the projected annual inflation rate is constrained to a single digit, in line with the policy objectives of the central bank, rather than being estimated objectively. Thus, deviations from outturns can be particularly large when countries are affected by external shocks, which in turn influences the projections of government spending. For instance, high inflation between 2007/08 and 2009/10, as a result of the food crisis, coincided with the case countries' largest overspending against medium-term plans.

<sup>15</sup> Austria, Netherlands, Sweden, and the United Kingdom. A similar comparison with advanced countries is shown in Figures 3, 4, 5, and 7. The limited number of countries included in this sample is explained by lack of comparable data.

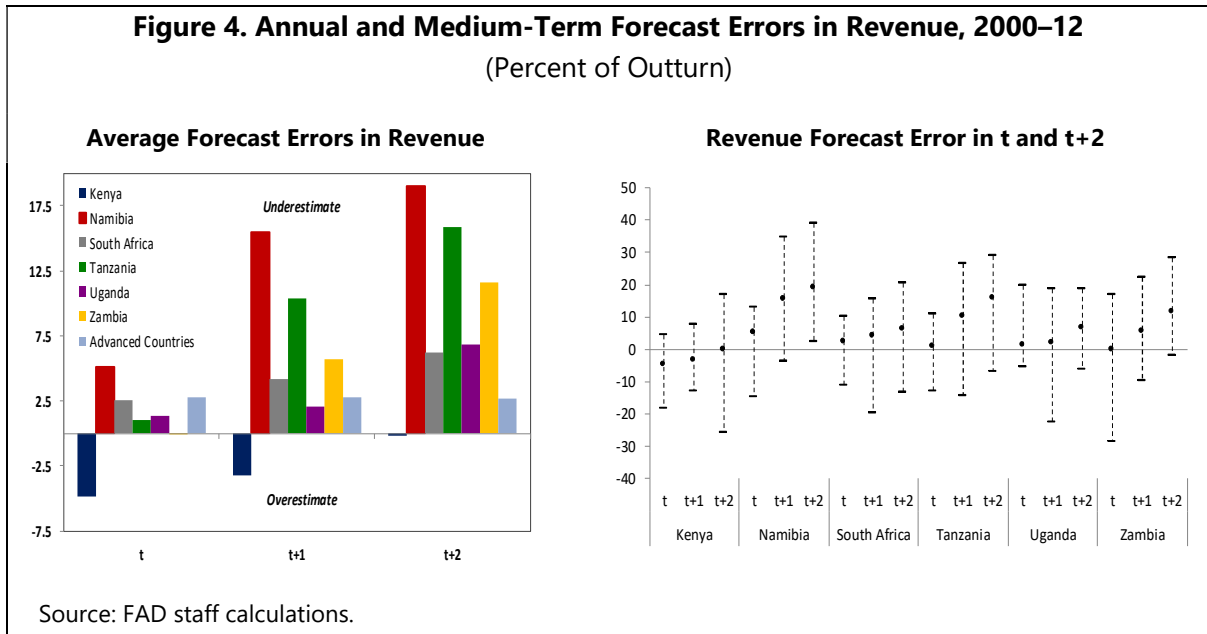


## B. Fiscal Forecasting

### Revenue

With the exception of Kenya, the case countries have consistently underestimated collections of future domestic revenue, though several factors may have contributed to this result<sup>16</sup> (Figure 4). Forecasts of revenue one year ahead (year t+1) were on average 5.8 percentage points lower than the outturns. Forecasts for year t+2 show an even greater conservative bias of more than 5 percent for South Africa and Uganda, and 10 percent or above for Namibia, Tanzania, and Zambia. Some advanced countries (such as Austria, Netherlands, Sweden, and United Kingdom) have also tended to underestimate their revenue collections, especially in the medium term. The average deviation of revenue forecasts over the medium term in the case countries, however, is nearly four times as great as that in advanced countries. Their governments may have an interest in presenting conservative forecasts of inflation to build in a safety margin that helps them meet budgetary targets. They also have less mature systems of revenue administration, making collections inherently harder to forecast.

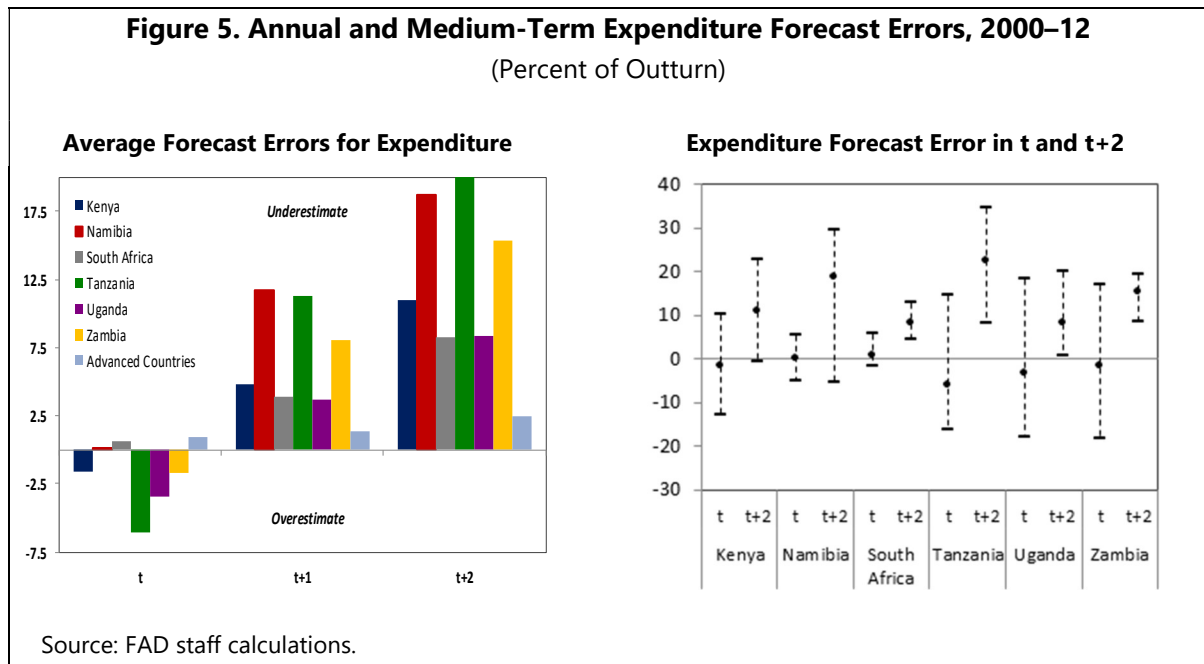
<sup>16</sup> For example, changes in the tax code or revenue administration practices may only increase or decrease the amount of revenue collected after a considerable lag.



## Expenditure

All case countries have typically underspent against their annual budget estimates, while consistently overspending against their medium-term plans (Figure 5). Between 2000 and 2012, the average forecast deviation of total spending in the budget year (t) was minimal for Namibia and South Africa, less than 5 percentage points for Kenya and Uganda, and a little over 5 percentage points for Tanzania and Uganda. This tendency to underspend may be attributed to a commitment by the governments concerned to maintain annual fiscal discipline, as well as in-year cash shortages and lack of capacity to make reliable projections of spending over the medium term.

Namibia and South Africa have a good track record in adhering to their annual spending plans, but less so over the medium term. The performance of South Africa is similar to that of advanced countries, which marginally underestimate spending in the budget year. Advanced countries, similar to case countries, tend to overspend in the medium term (t+2), but at a lower rate (2.4 percent) compared to average overspending in the case countries (in the range 5 to 20 percent). This result is partly attributable to deviations in the macroeconomic forecasts, particularly inflation, which were especially pronounced during the period 2007–10. To address endogenous shocks from interest rates or large exogenous movements in world commodity prices, for example, the practice has been for the governments to make periodic revisions of their medium-term expenditure plans in response to such shocks.



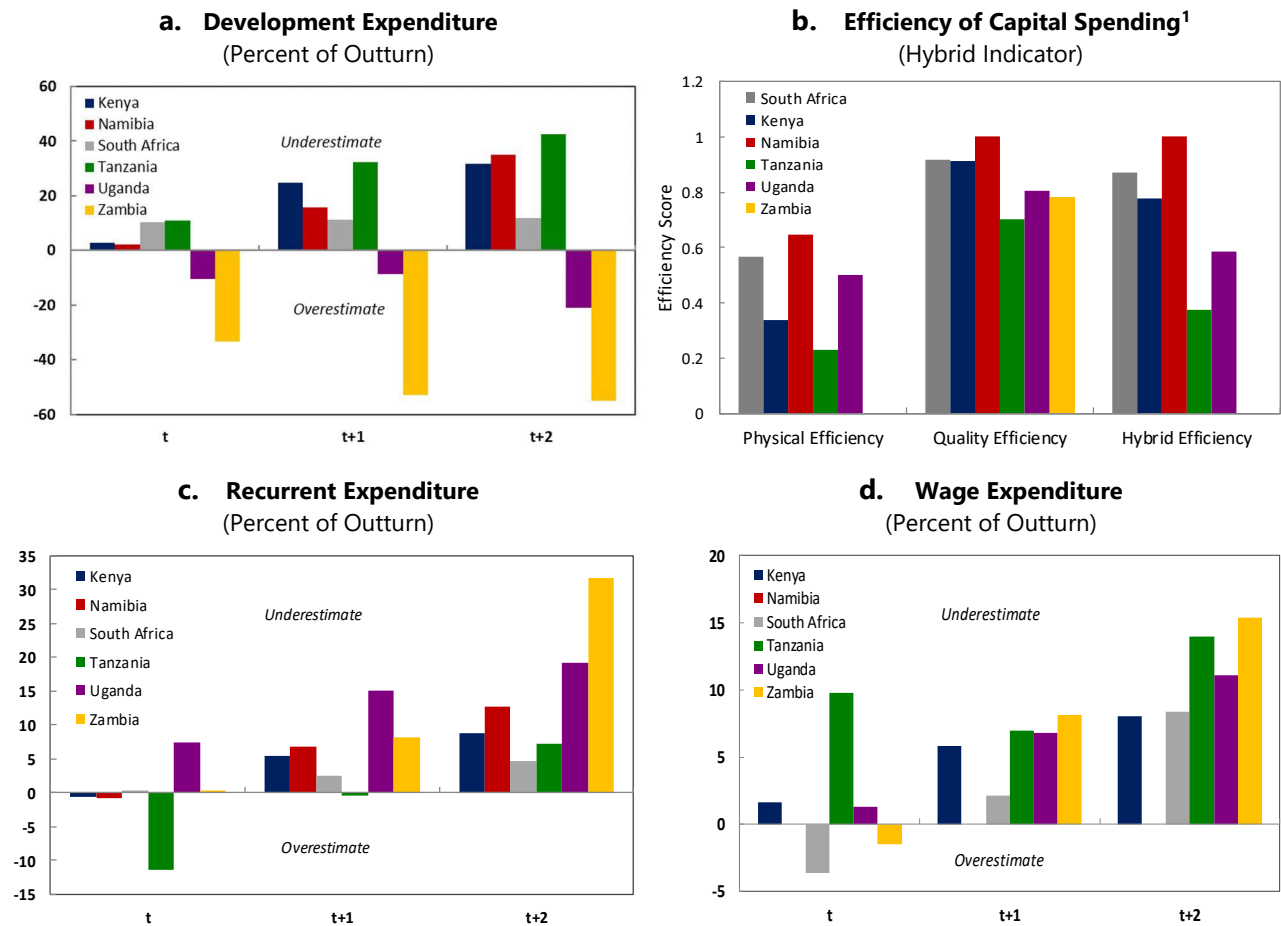
While macroeconomic forecasts are an essential input to preparing the projections of spending and revenue included in the annual budget and the MTBF, political and institutional factors also play an important role. Fiscal forecasts have been criticized for being biased, usually as a result of unrealistic, and sometimes politically-motivated targets. Data for the case countries suggest that the national authorities tend to adopt almost the same nominal GDP and inflation forecasts regardless of economic conditions and trends. Four of the case countries (Kenya, Tanzania, Uganda, and Zambia) have benefitted substantially from IMF-supported programs since the mid-1990s.<sup>17</sup> It is likely that these programs helped improve the reliability of the countries' macroeconomic and fiscal forecasts. Once the IMF programs ended, the quality of the forecasts appears to have worsened.

### Expenditure components

Figure 6 shows deviations in the projections of budgetary expenditure broken down into its three main components, namely development spending (which is mainly capital expenditure) and how efficiently it is spent, the public service wage bill, and recurrent expenditure on goods and services.

<sup>17</sup> Except in Kenya, where there was no IMF program from 2007 to 2011.



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

Source: FAD staff calculations.

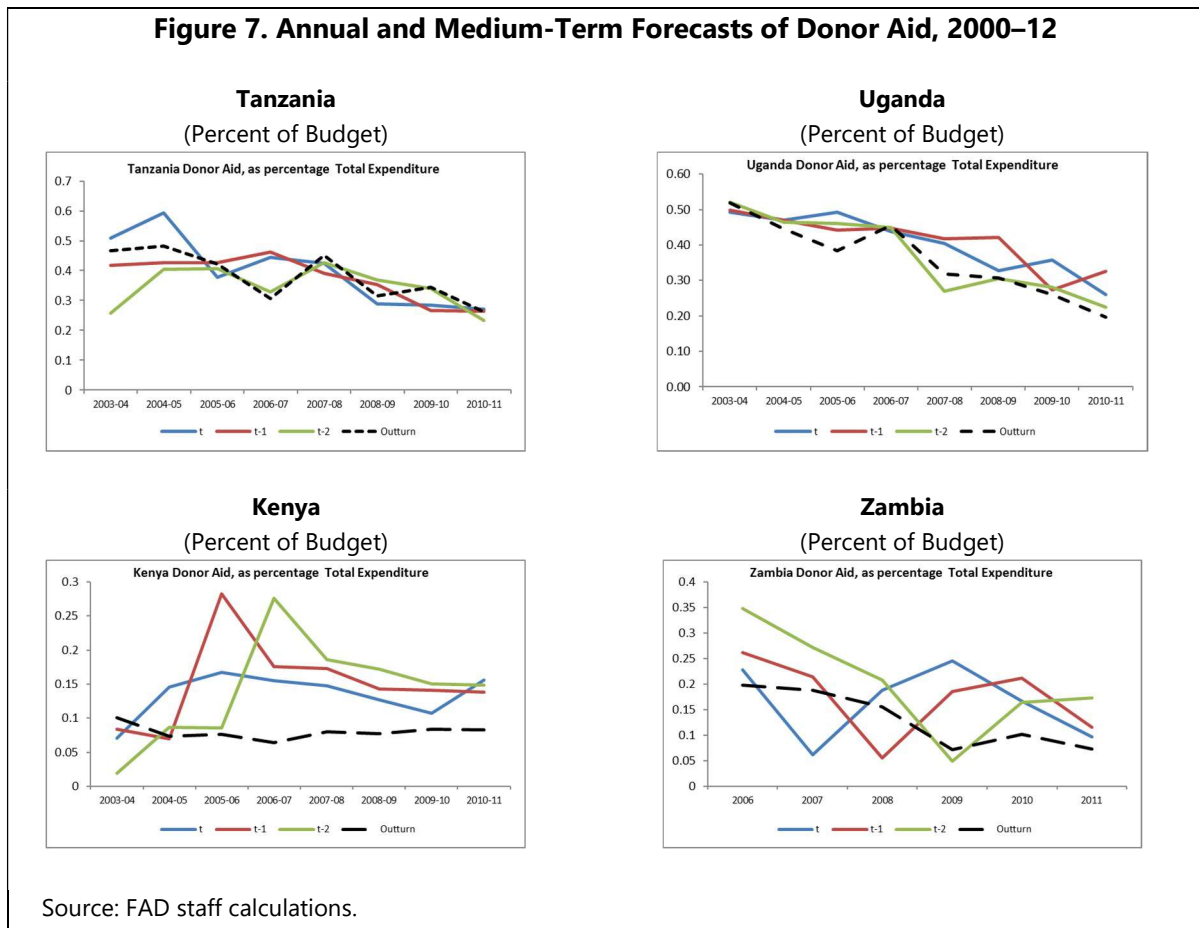
<sup>1</sup>The efficiency of public investment is defined as the relationship between the value of the public capital stock and the measured coverage and quality of infrastructure assets. For full definitions and further discussion, see IMF Board Paper, June 2015, *Making Public Investment More Efficient*.

The main findings are as follows:

- Uganda and Zambia have persistently overestimated development expenditure while the other case countries have underestimated spending in years t+1 and t+2. Development spending is often dependent on donor funding, which could help explain the large deviations.
- With respect to investment spending, Kenya and Namibia use their capital more efficiently, and have better access to and quality of infrastructure assets than Tanzania and Uganda.
- Except for Tanzania and Uganda, projections of recurrent spending in year t are fairly accurate, but large underestimates have occurred in the outer years, ranging from 5 to 15 percent in year t+1, and from 5 to 30 percent in year t+2.

## Donor aid

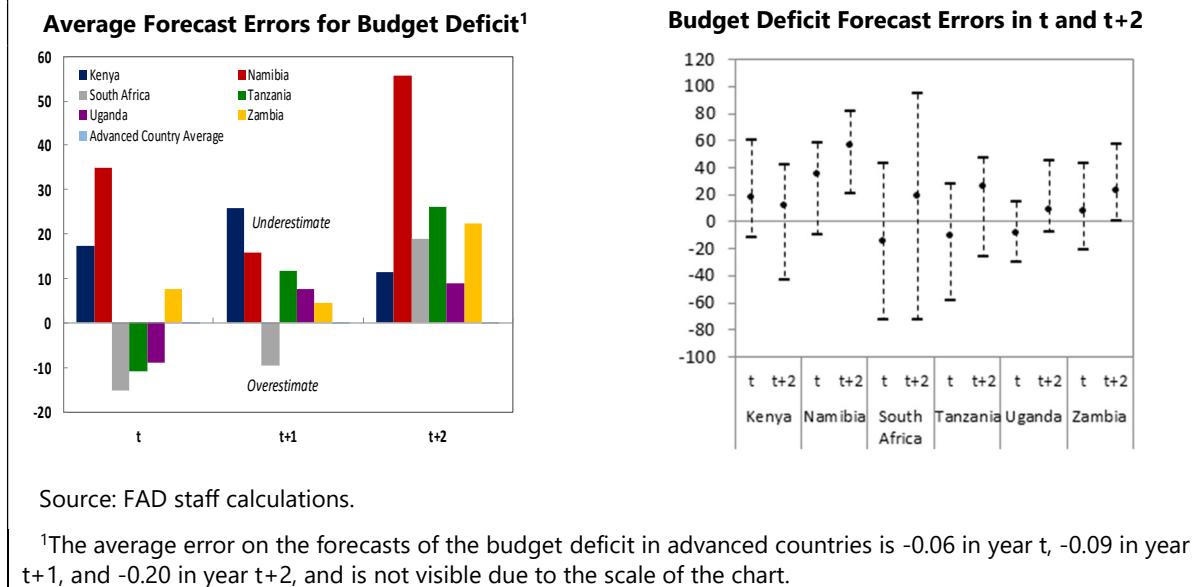
Figure 7 shows a comparison between the projections and outturns of overseas development assistance in four of the case countries. All these countries have consistently overestimated donor aid, Kenya and Zambia displaying much larger variations than Tanzania and Uganda.



## Budget deficit

Three of the case study countries have tended to underestimate their budget deficit in the current year (by up to one-third) while the other countries have overestimated the deficit, but by generally smaller amounts (Figure 8). Over the medium term, all countries have tended to underestimate their budget deficit, except for South Africa (in years  $t$  and  $t+1$ ). SSA countries perform worse than advanced countries in this regard. This finding could be due to governments that set unrealistic fiscal targets over the medium term, and to the biases in the forecasts of GDP and inflation discussed above.

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



## V. CHALLENGES OF IMPLEMENTING MTBFs IN THE CASE COUNTRIES

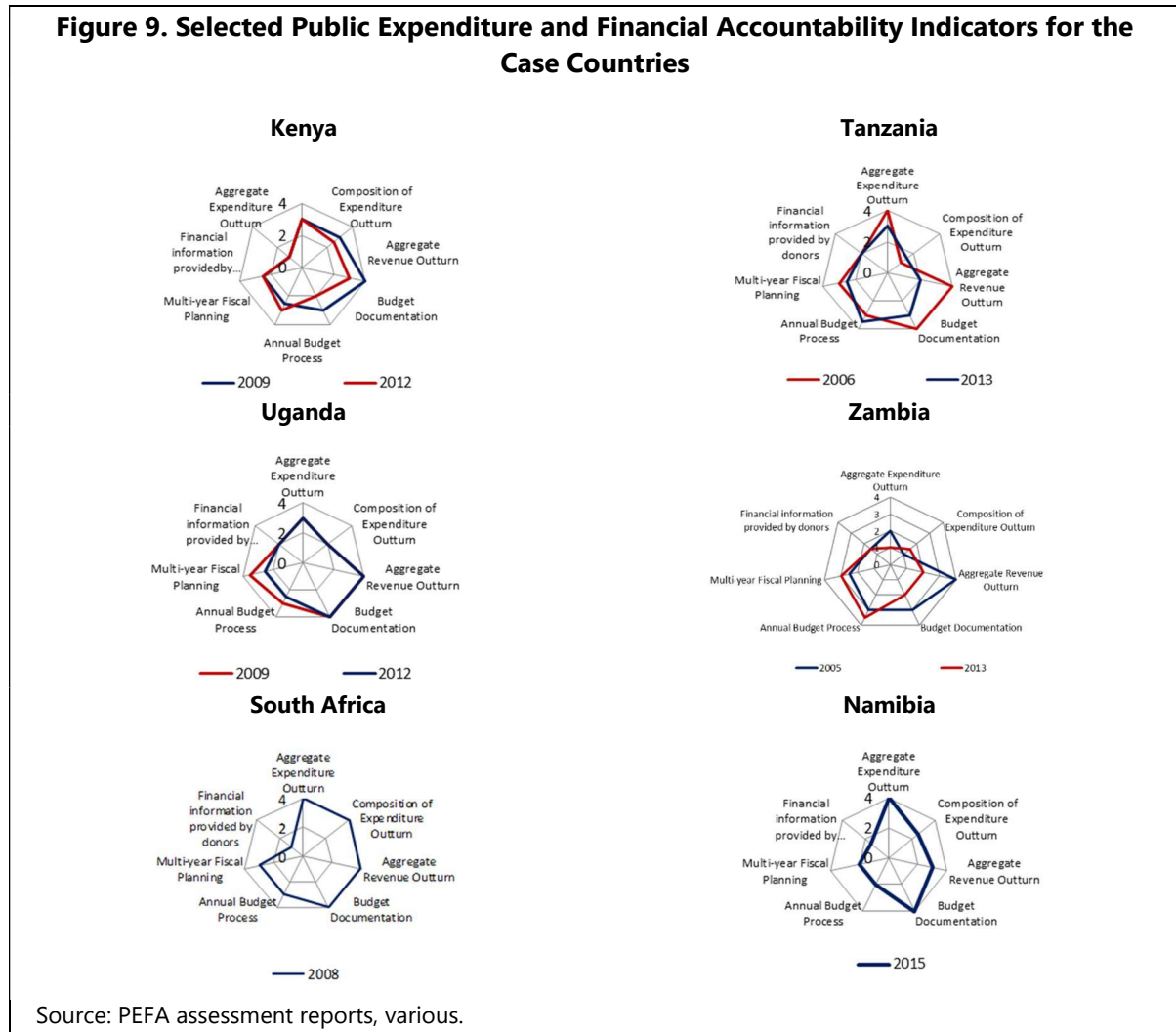
This section discusses the main challenges that the case countries have faced in implementing MTBFs, based on the experience of the IMF's Fiscal Affairs Department in delivering technical assistance to these countries, and other available studies (for example, reports by CABRI, the World Bank, and other donors).

The evidence presented in Section IV suggests that some of these challenges can be traced back to unreliable macro-fiscal projections and the absence of a credible medium-term fiscal strategy. An equally important and arguably more fundamental cause, however, is the absence of a credible annual budget process, as demonstrated by large divergences in the spending appropriations approved by the legislature in the annual budget law and the outturns, both at the aggregate level and by sector. In the absence of a credible annual budget, the foundations for building an MTBF that is both realistic and useful as a tool for policy analysis are extremely weak. Studies have pointed to the challenges of introducing an MTBF in the absence of a comprehensive and unified budget process, inadequate data (including on external aid), or unclear and ineffective institutional arrangements, or poor performance in executing the budgets approved by the legislature (for example., Harris et al., 2013; World Bank 2013).

These challenges have also been described as "prerequisites" for introducing an MTBF (Harris et.al, 2013) although in practice few countries have strictly followed this advice. Nevertheless, as discussed below, in reforming their budgetary institutions, countries should be cautious about moving too quickly to establishing an MTBF unless and until their basic systems of budgeting are working well. By ignoring this maxim, a country risks establishing an MTBF that is a paper

exercise only, with very little impact on the allocation of resources through the budget, a situation which mirrors that in many SSA countries.

Some of these basic features (or prerequisites) can be identified and quantified in Public Expenditure and Financial Accountability (PEFA) assessment reports. Figure 9 shows a selection of results from recent PEFA assessments<sup>18</sup> that have been carried out in all six of the case countries. In three of these countries, more than one PEFA assessment has been carried out, thus allowing changes in performance to be measured.



<sup>18</sup> The data presented in Figure 9 focus on the PEFA indicators that are most relevant to the prerequisites for an effective MTBF. The 2012 PEFA framework was used rather than the updated 2016 framework. The indicators assessed are as follows: PI-1: Aggregate expenditure outturn compared to the original approved budget; PI-2: Composition of expenditure outturn compared to the original budget; PI-3: Aggregate revenue outturn compared to the original budget; PI-6: comprehensiveness budget documentation; PI-11: Orderliness and participation in the annual budget process; PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting; and D-2: Financial information provided by donors for budgeting and reporting on project aid. PEFA scores range from 4 (high) to 1 (low).

South Africa performs strongly against most of the PEFA indicators assessed. For the other case countries, the following main findings emerge from the analysis of PEFA scores:

- On overall fiscal control (indicators PI-1 and PI-3 on total expenditure and total revenue respectively), performance was good in Namibia and Kenya, but much more variable in the other countries, and has shown some deterioration over time.
- The rating of the PEFA indicator on the composition of expenditure outturns (PI-2) was at the lowest level in three countries and relatively weak in a fourth country (Kenya). This indicator provides a useful assessment of the efficiency with which budgetary resources are allocated to alternative uses. It assesses the extent of the variance in expenditure composition during the last three years; and the average amount of expenditure charged to a contingencies fund or reserve during this period.
- The quality of the budget preparation process (PI-11) was moderate to good in all six countries. This indicator assesses the existence of and adherence to a fixed budget calendar; the clarity and comprehensiveness of the guidance provided to line ministries for preparing their budget submissions; and the timeliness of approval of the budget by the legislature.
- The quality of multi-year fiscal planning (PI-12) was also moderate and has worsened in all the case countries, except Kenya. This indicator assesses factors such as the preparation of multi-annual expenditure projections; the existence of sector strategies; multi-year costing of recurrent and investment spending; and linkages between investment spending and forward expenditure estimates.
- The quality and timeliness of information provided by donors on project and program aid (D-2) is extremely weak in all countries. This indicator assesses the completeness and timeliness of budget estimates prepared by donors for project support; and the frequency and timeliness of reporting by donors on actual donor flows for project support. The indicator is most relevant for countries that are dependent on external aid.<sup>21</sup>

### **Institutional challenges of implementing MTBFs**

PEFA data are useful as measures of the overall efficiency of a country's public financial management system, but do not take account of all relevant issues, especially those related to the political economy of budgeting rather than its technical characteristics, on which PEFA assessments primarily focus. The following paragraphs discuss other important factors that have slowed down the implementation of MTBFs in the case countries, or prevented them from achieving their full potential.

**Narrow and formalistic budget review process.** In many developing countries (including all the case countries except South Africa), a root cause of unreliable annual budgets is the narrow,

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<sup>21</sup> In the case countries, donor aid as a ratio of total expenditure ranges from 8 percent for Kenya to 39 percent for Tanzania and Uganda.

incremental and legalistic nature of the budget review process carried out by the central budget office, which is usually located in the ministry of finance. In such countries, the central budget office typically questions line ministries on whether their budget submissions take account of (i) recent policy decisions by the government relevant to the ministries concerned; (ii) the budgetary impact of new legislation; and (iii) the impact of changes in inflation and other key economic indicators. In contrast, the central budget office of more advanced countries typically engages in a much more thorough and intense dialog with line ministries on issues relating to their budget proposals. These issues typically include the goals and objectives of the ministry's programs and policies; the estimated economic and social impact of these policies; why the ministry claims to need additional resources to perform existing functions and tasks; the expected outputs, outcomes, and cost-effectiveness of new spending proposals; and why they could not be delivered in alternative ways (Allen, et. al., 2016).

To exercise the "challenge" function described above, the ministry of finance needs to employ a substantial number of budget officers with skills in economics and finance, together with a developed understanding of the policies, programs, and functions of the line ministries that they "shadow."<sup>24</sup> In the absence of these conditions, the budget review process in most SSA countries is largely formulaic and procedural, with limited impact on spending outcomes. Only lip service may be paid to the imposition of budget ceilings, for example, which are largely ignored during the execution of the budget. In addition, during the budget year, central budget offices are typically inundated with requests from line ministries for supplementary appropriations or a reallocation of funds within its overall budget allocation. Such events disrupt the planning process and frequently lead to large variations between the composition of expenditure approved by the legislature and the outturn (see Figure 9).

**Weak and fluctuating political leadership.** As noted in Section III, MTBFs showed some initial signs of success in countries where strong political leadership—while it lasted—created a favorable environment for building institutions and fostering constructive engagement of policy makers and technocrats in the formulation of medium-term macro-fiscal policy and expenditure planning (CABRI, 2013).<sup>25</sup> Another useful initiative during this period was to establish Parliamentary Budget Offices (PBOs) in Uganda, South Africa, and Kenya to support the political

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<sup>24</sup> Budget offices in advanced countries may comprise between 50 and 200 professional staff, depending on the size of the country, at least five or six times as large as the budget offices in the case countries (except South Africa).

<sup>25</sup> In Uganda, for example, the appointment of President Museveni in 1986 underpinned the country's transformation of economic and fiscal policies. Until that point, he himself and many others in government were ambivalent about the need for fiscal discipline—a concept associated in many minds with the policies of the IMF and other 'neo-colonialists'. The transformation is described by Tumusiime-Mutebile (2010), a former Permanent Secretary to the Treasury (1992-2001).

debate on multi-year fiscal and budgetary issues. In South Africa<sup>26</sup> progress was also made in developing a top-down approach to decision-making on fiscal policy and budgeting through the cabinet. At the same time, however, basic annual budgeting processes in most of the case countries has remained weak and lacks credibility, suggesting that the MTBF reforms were more cosmetic than real.

Sustaining the political momentum for reform, moreover, proved difficult, and the climate for developing MTBFs continues to be challenging (CABRI, 2013, Whitworth and Williamson, 2010). These challenges include the following:

- ***Weak role of the cabinet in budgetary decision-making.*** Most cabinets in the case countries are not accustomed to play a significant role in strategic policy making. They seldom exert a strong influence on overall fiscal management, and do not have access to credible data and policy analysis with which to make informed decisions. Cabinets have generally not been effective in arbitrating among competing priorities or providing binding decisions on policy prioritization and budgetary resource allocation over the medium term. In the case of Kenya and Uganda, fiscal decisions taken by the cabinet early in the budget process have not always been respected, and in some instances have been subject to frequent revisions during the process of finalizing the MTBF and the annual budget.
- ***Limited impact of national development plans<sup>27</sup> on budgetary decisions.*** The existence of separate functions and organizational arrangements for the preparation of countries' multi-year national development plans and the budget remains problematic. In most SSA countries, coordination of national planning and preparation of the budget remains challenging.<sup>28</sup> A related issue is inconsistencies in policy and expenditure prioritization. As noted above, commitments by the government on medium-term fiscal targets are not

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<sup>26</sup> In South Africa, the budget reform since the late 1990s, though largely driven by the executive arm of government, encouraged political office-bearers, at all levels—national, provincial and local governments—to effectively engage with the fiscal and expenditure planning process. National and provincial cabinets are responsible for overseeing and managing the entire budgetary decision-making process—creating a greater degree of contestability and buy-in within the executive, through political peer pressure. The decisions of cabinet are widely publicized through budget documents, increasing pressure on political office-bearers to adhere to the decisions that were made.

<sup>27</sup> By “national planning” we mean the process that many SSA countries undertake to prepare a medium-term development plan, which defines the government’s strategy for economic and social development at national, local, and sectoral level. Plans typically cover a five-year period, after which they are updated. Long-term strategic development plans covering a period of 10–20 years may also be prepared, with targets based on the Millennium Development Goals (MDGs) or Sustainable Development Goals (SDGs).

<sup>28</sup> This remains true even in Uganda, where the staff and functions related to the budget and national development functions have been integrated, and other SSA countries (e.g., Ethiopia, Liberia, Mozambique, Rwanda, Tanzania, and Zambia) where former planning ministries have been absorbed into the finance ministry but where, in practice, the processes of development planning and budgeting remain largely separate. In South Africa, development planning took on greater prominence after 2009 when the Planning Commission was set up. For a discussion of these issues in the context of some West African countries, see Ashni Singh, “Coordinating the Planning and Budgeting Functions of Government,” IMF *PFM Blog*, April 3, 2017 (blog-pfm.imf.org).

well aligned with their sector plans and priorities, giving rise to the over-use of supplementary budgets, and reallocations of expenditure appropriations within and between spending agencies. Poor linkages between countries' national development plans and their budgets have also undermined efforts to use MTBFs as instruments to improve poverty reduction and achieve other social objectives (Simson, 2012). Much work remains to be done, for example, to align the classification system used for budgeting and the SDGs.<sup>29</sup>

- **Improving public investment management.** Little progress has been made in building better systems for planning and implementing multi-annual public investment projects. This lacuna is partly a consequence of the poor coordination between developing countries' planning and budgeting instruments. Some national development plans include a public investment component<sup>30</sup> but in most cases these plans are not constrained by any specific resource envelope, and do not include multi-year cost estimates broken down by project. Moreover, projects included in the PIP are rarely allocated a priority in relation to the country's economic or social needs, and are unlikely to have received a thorough economic and financial appraisal (e.g., a cost-benefit analysis). An analytical instrument recently developed by the IMF, the Public Investment Management Assessment (PIMA) tool<sup>31</sup> offers a potentially fruitful way of bridging the gap between planning and budgeting systems, and improving investment performance. It establishes an analytical framework for assessing the efficiency of a country's public investment and the associated institutions for planning public investment, allocating resources for approved projects, and implementing these projects. The tool is already being used to good effect in several African countries.<sup>32</sup>
- **Inefficient planning and monitoring of external aid.** Recent evidence<sup>33</sup> suggests that while international efforts to improve the effectiveness of external aid coordination initiated by the Paris Declaration of 2005<sup>34</sup> yielded some encouraging initial results, progress has slowed down subsequently. The application of tied aid reduced globally from 50 percent in 2005 to 21 percent in 2015, and the overall use of budget support in the African region— together with the channeling of aid through country PFM systems—increased only slightly over this period. Some donors, moreover, have reverted to traditional forms of project aid in

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<sup>29</sup> See Suren Poghasyan, "How to Link the SDGs and the Budget", IMF *PFM Blog*, August 17, 2016 (blog-pfm.imf.org).

<sup>30</sup> Sometimes called a public investment program, or public investment plan (PIP).

<sup>31</sup> International Monetary Fund, June 2015, *Making Public Investment More Efficient* (Washington DC: IMF).

<sup>32</sup> Among the case countries, in Namibia, South Africa, and Zambia, as well as in Botswana, Burkina Faso, Liberia, Mali, Mozambique, Namibia, and Sierra Leone.

<sup>33</sup> Summarized by Jon Shields in his presentation on "An Overview of Aid Management" at the IMF/USAID Workshop on Building Capacity in Public Financial Management, Washington DC, September 12-16, 2016. A useful source of data on the efficiency and predictability of donor aid disbursements was the "D-indicators" provided in PEFA assessments up to 2015. These indicators, however, were not included in the revision of the PEFA framework published in 2016.

<sup>34</sup> Follow-up agreements were negotiated in Accra (2008), Busan (2011), and Mexico City (2014).



which funds are ring fenced and executed outside the budget. An additional challenge for governments seeking to prepare credible budgets is their limited access to reliable external financing projections over the medium term combined with high volatility in donor aid disbursements. In this area, PEFA results indicate that for SSA countries there was no significant improvement in performance between 2005 and 2015.<sup>35</sup>

- ***Inadequate institutions for executing the budget.*** Studies using PEFA data suggest that, in most developing countries, PFM institutions for executing the annual budget are weaker than those for preparing the budget, and that only modest improvements were made during the past decade (de Renzio, 2013, Ronsholt, 2011).<sup>36</sup> Issues include basic accounting systems, cash rationing, over-reliance on manual systems of financial reporting, and weaknesses of internal control and audit systems. If budget execution is weak, and countries resort to frequent supplementary budgets and other in-year adjustments to the appropriations approved by the legislature, the credibility of the annual budget estimates will be seriously undermined. Budget credibility is also weakened when auditors identify widespread irregularities in the government's financial accounts, or more serious cases of fraud and corruption that prevail in many developing countries.
- ***Underdeveloped parliamentary involvement in and oversight of MTBFs.*** Legislative action in budgeting within the six countries is evolving and has yet to provide an informed debate on fiscal policy and budget priorities. As noted above, some SSA countries have strengthened the role of their legislatures in the oversight of fiscal policy and the budget. In Kenya, for example, the new Constitution of 2011 established a PBO, and the legislature has urged the government to transfer the functions of the Treasury's central budget office to the Presidency, thus creating an entity similar to the Office of Management and Budget (OMB) in the United States.

The issues raised in this section were identified through an analysis of the six case countries. However, a review of recent FAD TA reports across the region suggests that similar challenges have been faced in other African countries engaged in budget reforms over the past two decades. Many of these countries have not been able to establish a credible, and effective MTBF. In the next section, we set out a framework of MTBF development which focuses on the common characteristics of budget systems that can be found in African countries at different stages in their development, and a possible reform path for countries seeking to strengthen these systems and improve the credibility and effectiveness of budgeting.

## VI. THE FOUR PHASES OF MEDIUM-TERM BUDGET FRAMEWORK DEVELOPMENT

Based on observations of how the procedures of annual budgeting and MTBFs have developed around the world since the mid-20th century, we argue in this section that MTBFs typically

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<sup>35</sup> Jon Shields, op. cit.

<sup>36</sup> See also Sanjay Vani, "Has Global PFM Improved", *PFM Blog*, September 6, 2013 (blog-pfm.imf.org). Vani's calculations are based on the World Bank's Country Policy and Institutional Assessment (CPIA) ratings.

develop through a series of four phases, in which a range of conditions and characteristics apply. The section is intended to have broad applicability to developing countries in Africa and elsewhere. The four phases are “stylized” in the sense that they are not intended to represent the characteristics of any actual country. Thus, for any specific country, characteristics drawn from one phase of development are likely to predominate, but characteristics from other phases might also be found. Broadly speaking, however, the characteristics of Phases I and II will typically be found in developing countries, whereas emerging markets will be represented by many of the characteristics of Phase III, and advanced countries by Phase IV.

The four phases may be summarized as follows:

- Phase I (“Pre-MTBF”) is characterized by a budget system that has no meaningful multi-year perspective and effectively produces an annual budget based on traditional line items, with simple indexing of expenditure from year to year (sometimes called “incremental budgeting”). Budget preparation is driven almost exclusively from the center.
- Phase II (“Elementary MTBF”) is characterized by a basic medium-term expenditure planning framework that has some elements of top-down fiscal planning and bottom-up costing of policies. However, the expenditure estimates or ceilings of outer years of the budget framework are still indicative, and the link between planning and resource allocation is tenuous. The costs of the government’s strategic and development plans are poorly estimated and cannot be linked to the multiannual forecasts of key macroeconomic variables and fiscal aggregates. Thus, the planning and budgeting functions are poorly aligned.
- Phase III (“Maturing MTBF”) is characterized by an established MTBF with a direct and credible link between the planning phase and budgeting that flows from a sound medium-term macro-fiscal framework. There are effective (binding) budget ceilings to guide planning as well as aspects of program-based budgeting.
- Phase IV (“Advanced MTBF”) is characterized by a mature MTBF that has a high level of credibility with different stakeholders, with well-developed accountability mechanisms for the executive branch. As in the maturing MTBF, the macro-fiscal framework is based on reliable forecasts that produce binding multiannual expenditure ceilings. The budget has a strong performance orientation, reinforced by regular spending reviews.

The defining characteristics of the four phases are set out in Table 3. The table shows the four stylized phases in the development of budgeting practices and an MTBF. As noted, the columns of the table are not intended to represent specific countries. Rather they represent a process of transition which all countries should complete before moving from basic budgeting practices to more advanced systems. It should also be emphasized that advanced systems are also in a process of transition as new initiatives in budgeting are developed and tested.

Twenty characteristics are defined, which may be grouped into the following five broad categories: (i) characteristics related to the state of development of a country’s fiscal principles,

targets and rules, as well as its capability to produce reliable and timely macroeconomic and fiscal forecasts; (ii) characteristics related to the credibility of the process of preparing the budget; (iii) characteristics related to the classification and appropriations structure of the budget, and the extent of its performance orientation; (iv) characteristics related to the institutional development of the budget, especially the role of the cabinet, and the autonomy of line ministries to manage their own resources; and (v) characteristics related to the oversight of a country's fiscal policy and budget by the legislature, and by an independent fiscal council. For each characteristic described below, and shown in Table 3, five possible levels of development ("phases of the moon") are defined, ranging from "basic" to "advanced" practices. These phases, in turn, are a development of the five "prerequisites" of MTBFs<sup>37</sup> (Harris, et. al., 2013) that were discussed in Section V.

### **Clarity and transparency of the medium-term fiscal strategy**

This section of the framework comprises three characteristics that seek to determine whether the country has a clear and predictable fiscal outlook over the medium term, and a longer-term vision for some advanced economies. A key characteristic is the existence of a credible fiscal strategy, based on accurate and coherent macroeconomic forecasts. Having a set of binding fiscal rules is another characteristic of an advanced MTBF.

### **Credibility of the budget process**

The next section of the framework characterizes the budget process. This section comprises seven different indicators including strategic aspects of the budget (how well it reflects national priorities), the reliability of spending estimates, the nature of spending ceilings, as well as the integrity of the budget. A credible budget is thus one where medium-term plans are accurately costed and adhere to ceilings approved by the government, where capital and recurrent budgets are fully integrated (including donor funding), and where there are limited in-year revisions once the budget has been approved. In addition, a feature of an advanced budget framework is a contingency reserve that absorbs unanticipated shocks and reduces the volatility of spending estimates. This predictability gives greater certainty to line ministries for their budget planning.

### **Appropriation and budget classification**

The overall structure of the budget and the presentation of the budget numbers are important markers for the level of development of the MTBF. Advanced MTBFs typically appropriate funds by program, have a strong performance orientation, and have a budget classification system and a chart of accounts that are fully compliant with international standards.<sup>38</sup>

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<sup>37</sup> Namely, (i) a credible annual budget, (ii) prudent medium-term macroeconomic projections, (iii) a stable medium-term fiscal framework, (iv) a comprehensive and unified budget preparation process, and (v) clear and effective institutional arrangements.

<sup>38</sup> For example, the IMF's *Government Finance Statistics Manual (GFSM)*, 2014.

### **Institutional characteristics of the budget process**

This section characterizes the nature of engagement between key players in the budget making process. The role of the central budget office and its interactions with line ministries and agencies are important features. As discussed in Section V, in more advanced MTBFs, the ministry of finance plays a strong “challenge” function and is able to instill discipline across the budget process. This derives from the fact that the budget office has a high level of capacity but still grants autonomy to spending ministries and agencies, as long as they prepare their plans within the given ceilings and parameters. In addition, the budget framework gains further credibility through regular interactions between officials and politicians, including members of the legislature, who are involved throughout the budget cycle. Budget documents are published in a comprehensive manner and are made publicly available through various print and electronic channels.

### **Oversight of the budget by the legislature**




























The last section deals with the quality of oversight by the legislature. In weak or basic MTBFs, the legislature plays a limited role in scrutinizing the budget proposals prepared by the executive. On the other hand, advanced MTBFs are characterized by meaningful consultations between the executive and the legislature, even before the final fiscal framework is tabled. In some countries, independent fiscal councils have been established to challenge the underlying assumptions of the fiscal framework and the budget, which improves the quality of forecasts and of the spending estimates.

































It should be emphasized that the transition from one phase to another may take many years, in some cases decades, to complete. For example, the position of the United Kingdom was broadly located in Phase II (“elementary MTBF”) from the early post-World War II period until the early 1980s, and moved into Phase IV in the early 2000s. An emerging market economy such as South Africa was probably situated in Phase II until the post-Apartheid reforms of the mid-1990s, and has subsequently moved into Phase III, with some emerging characteristics of Phase IV. The speed of transition is likely to vary from country to country depending on its political leadership, culture, and institutional characteristics. The enactment of new constitutions in countries such as Chile, Kenya, and South Africa have tended to promote reforms and speed up the transition to a higher level of performance. The process of transition is not necessarily one-directional. Countries’ progress may be stalled or reversed in the wake of adverse political developments, especially those that reduce the incentives for reform, or weaken the position of the ministry of finance.<sup>39</sup>





















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<sup>39</sup> Uganda provides an example, after the initial phase of Museveni-inspired reforms in the late 1990s.

Table 3. Stylized Phases in the Development of a Medium-Term Budget Framework

Characteristics	Pre-MTBF	Elementary MTBF	Maturing MTBF	Advanced MTBF
<b>Clear and transparent medium-term fiscal strategy</b>				
<b>Medium-term macro-fiscal strategy</b>	No credible fiscal strategy 	Some indicative fiscal targets, but no comprehensive fiscal strategy 	Medium-term fiscal framework (3 years) 	MTFF plus long-term fiscal projections (10+ years) 
<b>Reliable macroeconomic forecasts</b>	Government relies largely on forecasts prepared by external entities 	Forecasts prepared for one year ahead only 	Full medium-term forecasts are prepared 	Reconciliation of macroeconomic indicators and forecast errors 
<b>Fiscal Rules</b>	None 	Broad-based fiscal principles 	Non-binding fiscal targets 	Legislated or binding fiscal rules 
<b>Credible budget process</b>				
<b>Effective translation of national priorities into the annual budget and MTBF</b>	Annual budget only, loosely connected to national policy priorities (national development plan) 	Annual budget only, with some linkage to national policy priorities 	Costed national policy priorities, partly linked to MTBF 	Strong integration of national policy priorities and MTBF, and costed long-term plans 
<b>Nature of spending ceilings</b>	No spending ceilings 	Non-binding ceilings for budget year only 	Binding ceilings for budget year and indicative ceilings for outer years 	Binding multi-annual ceilings 
<b>Medium-term (“bottom-up”) spending estimates</b>	Reliable spending estimates for budget year only 	Medium-term spending estimates prepared by the central budget office 	Unreliable medium-term spending estimates prepared by line ministries 	Reliable medium-term budget estimates prepared by line ministries 
<b>Reliable projections of donor aid</b>	Donor funding managed separately from the budget 	Limited integration of donor funding in budget and unreliable forecasts 	Donor funding well integrated in budget, and reliable forecasts 	Not Applicable

Characteristics	Pre-MTBF	Elementary MTBF	Maturing MTBF	Advanced MTBF
<b>Credible budget process (continued)</b>				
<b>Integration of capital/development spending</b>	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 
<b>Extent of in-year revisions to approved budget</b>	Many unauthorized revisions 	Many revisions, authorized by central budget office 	Some revisions, authorized by budget office and legislature 	Revisions to budgets are rare 
<b>Arrangements for managing contingency reserves</b>	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 
<b>Appropriation and budget classification</b>				
<b>Appropriation structure</b>	Economic classification; large number of line items 	Economic classification; fewer line items 	Program structure introduced but for information only 	Appropriation by program 
<b>Performance orientation of the budget</b>	None 	Limited 	Performance targets set at program level 	Legislative review of performance targets 
<b>Classification of the budget</b>	Basic economic and administrative classification only 	Classification largely based on national standards 	Classification broadly compliant with international standards 	Classification fully compliant with international standards 
<b>Institutional characteristics of the budget process</b>				
<b>Budget negotiations with the line ministries</b>	Most decisions on budget allocations taken by finance ministry 	Mechanical/legal approach to decisions on budget allocations 	Fully developed 'challenge' function by finance ministry 	'Challenge' function plus regular spending reviews 
<b>Capacity of central budget office and line ministries in budgeting</b>	Limited capacity and staff, many functions carried out by experts hired by donors 	Moderate capacity of central budget office, but limited staff with professional skills 	High capacity of central budget office, but significant skills gaps in line ministries 	High capacity of central budget office and line ministries 

Characteristics	Pre-MTBF	Elementary MTBF	Maturing MTBF	Advanced MTBF
<b>Institutional characteristics of the budget process (continued)</b>				
<b>Devolved authority of line ministries to execute their budgets</b>	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 
<b>Cabinet involvement in budget approval</b>	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 
<b>Coverage and transparency of budget documents</b>	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 
<b>Oversight of the budget by the legislature</b>				
<b>Effective legislative oversight and consultation</b>	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 
<b>Review of fiscal strategy by an independent agency</b>	None 	Limited review of fiscal strategy, except within the executive 	Informal mechanisms for independent review 	Independent fiscal council established 

In the following paragraphs, we set out a brief description of the reform strategy that countries might follow in moving from one phase of MTBF development to a higher level.

### **Transition from the pre-MTBF stage to an elementary MTBF (Phase I to Phase II)**

The following reforms should be prioritized: first and foremost is to make the annual budget more credible. Before making major strides towards an effective MTBF, governments should ensure that the annual budget is a realistic tool for planning and resource allocation, and that it provides sufficient certainty to line ministries to plan for services delivery. This requires the ministry of finance to provide credible budget ceilings to line ministries although they may not be binding initially.

Macro-fiscal forecasting should be improved to provide reliable medium-term forecasts. In addition, governments should move towards a more detailed budget classification at both

economic and functional levels. This reform will enable more detailed costing of services that produces more reliable “bottom-up” spending estimates by line ministries. This change in turn facilitates the move towards meaningful budget negotiations between the ministry of finance and line ministries and a stronger link between national priorities and forward spending estimates. Development priorities become reflected in the budget figures when the ministry of finance begins to challenge line ministry plans.

Other important reforms at this stage include enhancement of the role of the cabinet in the preparation of fiscal targets and expenditure ceilings; improvements in the planning, forecasting and monitoring of external aid, and an extension of parliamentary involvement in the scrutiny of the annual budget.

### **Transition from an elementary MTBF to a mature MTBF (Phase II to Phase III)**

The transition from the elementary stage to a maturing MTBF requires a significant expansion in technical capacity at both the ministry of finance and line ministry levels. In the maturing framework, the government should put forward a well-defined medium-term fiscal strategy with clear fiscal targets that are approved by the cabinet. The reliability of macro-fiscal forecasting should be developed to a high level of confidence, establishing a strong top-down, medium-term fiscal framework that allows multi-year expenditure ceilings to be set at an aggregate level. Similarly, line ministries should start engaging in detailed costing of activities and programs over a three-year period. Such improvements in the capacity of line ministries help to establish a credible budget baseline that in turn forms the basis for preparing rolling three-year expenditure estimates.

Other reforms that may be considered in this stage include: (i) full integration of donor funding into the MTBF; (ii) hardening of budget ceilings while building greater realism into the MTBF through regular updates to reflect changes in economic conditions; (iii) making greater use of contingency reserves and spending margins to build more realism into spending plans; and (iv) allocating resources by program with a clear link towards program outputs and targets (output-based budgeting).

Accountability levels would be further enhanced in terms of a stronger challenge role played by the ministry of finance, more effective involvement of the cabinet in budget preparation, and stronger legislative oversight. Consideration might also be given at this stage to the establishment of formal fiscal rules and the introduction of a fiscal council.

### **Transition to an advanced MTBF (Phase III to Phase IV)**

The final transition to an advanced MTBF entails adopting more stringent design features. Few African countries, with the exception of South Africa, are ready to make this transition as it requires far greater macroeconomic stability to underpin planning within expenditure ceilings that are fixed and binding politically (and sometimes legally). This stage also requires an



experienced central budget office that can play the challenge role in a proactive and effective manner. Fiscal policy is guided by the adoption of transparent fiscal rules often monitored by a fiscal council. In addition, regular spending reviews are held to identify cost savings and to improve service delivery.

At this stage, governments should be in a better position to fully embrace program-based budgeting with a sharper focus on outputs and outcomes. The level of engagement with the cabinet is a regular feature of the budget process and the ministry of finance grants line ministries autonomy to set program budgets against agreed objectives and outputs. Consideration could be given to absorbing more extra-budgetary funds within the ambit of the MTBF. Elements of fiscal risk analysis can also be built into MTBF framework as access to relevant fiscal data and the analytical capacity of finance ministries evolve.

It is important not to underestimate the complex technical changes that are required in moving from one stage to the next, or the time and human resources needed to develop the more advanced practices. In addition, countries need to embrace a major shift in culture and institutional relationships and behavior both within the ministry of finance and, more importantly, in this ministry's relationship with other arms of the executive, the legislature, and other counterparts in the budget process. Institutional and political economy factors are particularly important in developing the budget office's challenge function discussed above, in improving the coordination between national development planning and the budget process, in extending the cabinet's role in approving fiscal policy targets and spending ceilings, and in increasing the coverage of the budget and its performance orientation. Enabling a smooth transition from the "pre-MTBF" phase to a more mature model of budgeting will also require a thorough knowledge of political economy relationships and dynamics across the government, and the ability to develop change management strategies in complex institutional environments.

### **Application of this methodology**

The framework described above could be applied as a diagnostic tool in all countries, whatever their level of development. Such an analysis would help identify measures that could be taken by the government to improve the performance of their MTBF. The results of a diagnostic assessment for the six case countries goes beyond the scope of the present paper, and cannot be pre-judged. Based on the existing information discussed in this paper, however, such an assessment would likely place five of the case countries broadly in the Phase II category ("elementary MTBF"), while South Africa would fall broadly in Phase III ("maturing MTBF"), with some elements of Phase IV ("advanced MTBF").

## **VII. CONCLUSIONS AND RECOMMENDATIONS**

This paper has looked in depth at six case countries, supplemented by experiences drawn from TA reports on a range of other developing countries. The paper has argued that the establishment of MTBFs in the case countries was an important reform but has yet to deliver its

potential benefits, consistent with the findings of a recent comparative study of budgeting and fiscal sustainability in Africa (Haruna, 2016). South Africa stands as a relative outlier, and the performance of its MTBF and budget institutions is comparable with advanced countries in many respects. The other case countries have generally lagged behind, and the promising start made in the late 1990s or early 2000s generally has not been sustained. Neither does the evidence suggest that MTBFs have made a significant contribution to achieving wider economic and social goals such as reducing poverty and improving the efficiency of public investment. The focus on developing MTBFs also meant that insufficient attention has been paid to improving the basic processes of annual budgeting, which continue to perform poorly.

The paper further points to the existence of different stages of MTBF development, in the form of four stylized phases representing in particular different levels of capability of the ministry of finance's central budget office and its work on macro-fiscal forecasting and analysis. This finding builds upon the "platform approach" idea set out in the World Bank's recent study of MTEFs (World Bank 2013). The approach described above is related, but has been developed to suggest a possible sequencing of reforms as countries move from one phase of development to the next.

During the initial stages of reform, the authorities should focus on strengthening the credibility of the annual budget process. To implement an MTBF, there also needs to be a step-change in the development of medium- and long-term fiscal policy scenarios, which in many more advanced countries incorporate a numerical fiscal rule. The accuracy and reliability of macro-fiscal forecasts must improve significantly to allow the authorities to table a credible medium-term fiscal framework (MTFF), which constitutes the first of the World Bank's platforms (World Bank, 2013).

Once the MTFF has been introduced, the authorities should focus on preparing more realistic and reliable estimates of the overall resource envelope for the annual budget and individual spending ceilings for line ministries. These improvements should enable the link between the planning and budgeting functions to be strengthened. At this stage, depending on a country's institutional capacity, features of the more advanced MTBF systems can also be adopted including multi-year expenditure ceilings, planning margins, and procedural fiscal rules.

Essential to the transition from one level to the next is the existence of an institutional framework that allows the cabinet to engage with officials during budget preparation. Higher levels of political engagement and support will usually lead to a more resolute reform path. The transition to an improved annual budget process and a more effective MTBF also requires a step change in the staffing and capability of the ministry of finance (especially its budget office and macro-fiscal unit).

One of the major policy conclusions of this paper is that many countries in Africa have probably yet to graduate from the "pre-MTBF" or "elementary MTBF" phases, with only a handful of countries having made the transition into the "maturing" stage. This finding suggests that the

recent focus of technical assistance in African countries on more advanced features of budgeting, such as program-based budgets, could well be misplaced.

To address the main challenges identified in this paper would thus require a return to basic budget principles and practices in most African countries. In practice, this means that reformers should identify broadly which stage a country has reached and then pursue the most appropriate steps consistent with the institutional capacity of that country.

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