Fiscal Performance and Global Experience with Medium Term Expenditure Frameworks

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At IMF-World Bank Conference on Fiscal Policy, Equity and Long-Term Growth in Developing Countries.
Washington, DC, April 21 - 22, 2013
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Four PFM
global
megatrends
Medium Term Expenditure Frameworks

2/3 of all countries had an MTEF in 2008

109 LICs and MICs World Bank engaged in reforms with since 1990s

MTEF still controversial among PFM practitioners
1. Do MTEFs work?

2. Should an MTEF be a common element of PFM systems given differences in country circumstances?

3. Where an MTEF is appropriate, what lessons can be drawn about, and what guidance provided on design and implementation in the context of broader advice about PFM reform?
What might MTEFs do?

1. 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

2. 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.
What form of MTEFs exist?

Hierarchy of frameworks defined by highest stage achieved, assuming lower stage(s) is(are) in place

1. Medium-Term Fiscal Framework (MTFF)
   - Resource envelope
   - Agency ceilings
   - Top down, input based

2. Medium-Term Budget Framework (MTBF)
   - National and sector strategies, forward estimates
   - Reconciliation with MTFF, agency/program ceilings
   - Top down and bottom up, primarily input based

3. Medium-Term Performance Framework (MTPF)
   - Systematic use of quantitative performance information
   - Output/outcome based
   - Funding linked to results
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 = MTFF
- 2 = MTBF
- 3 = MTPF

Identify new MTEFs by stages, transitions between stages, and (only a few) reversals.

Pilot MTBFs are recorded as MTFFs (but there is some analysis of pilots).

Externally imposed multi-year fiscal frameworks (e.g., those underpinning IMF programs) are not recorded at MTFFs.
What did we look for?

- Fiscal discipline
- Allocative efficiency
  - total expenditure volatility
  - health expenditure share
  - health expenditure volatility (MTEF should reduce)
- Technical efficiency
  - cost effectiveness of health expenditure (MTEF should increase (5) with MTPF having the largest effect)
- 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), 1 MTPF (Australia)
2008  132 MTEFs, 71 MTFFs, 42 MTBFs and 19 MTPFs
THE MTEF State of World

Case studies

- Medium Term Fiscal Framework (MITFF)
- Medium Term Budget Framework (MTBF)
- Medium Term Performance Framework (MTPF)
- No Medium Term Expenditure Framework (MTEF)
Transition path for advanced countries

Advanced Economies

Number of Countries


MTFF MTBF MTPF
MTEFs, Fiscal Balance, Expenditure and Revenue

Three-year window (72 obs)

Five-year window (53 obs)

(72 obs)

(72 obs)
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 MTFF, 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
- 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?
Beyond the Annual Budget

*Global Experience with Medium Term Expenditure Frameworks*
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