A common criticism of Poverty Reduction Strategy Papers (PRSPs) is that they represent a wish-list of policy measures which are poorly prioritised and too often de-linked from availability of financial resources in the budget. Medium Term Expenditure Frameworks (MTEFs) have been hailed as the solution to this problem, and introduced with donor support in a number of PRSP countries. However, the evidence so far is mixed, and highlights a number of factors which need to be taken into account to effectively link policy-making and budget processes. This briefing paper is based on nine country case studies which investigated the experience of implementing MTEFs in a PRSP context. The countries were Albania, Benin, Burkina Faso, Cameroon, Ghana, Rwanda, South Africa, Tanzania and Uganda.

**MTEFs and PRSPs: The Issues**

Strong linkages between policy, planning and budgeting are necessary for developing country governments to use limited resources efficiently and effectively. A medium term perspective to budgeting can be useful in this process and specific instruments such as MTEFs are important in improving budget management in developing countries. The appeal of MTEFs lies in their potential to link the often competing short-term imperatives of macroeconomic stabilisation with medium and longer term demands on budget resources, thereby contributing to improved policy making and planning and more efficient and effective service delivery.

**Box 1: Characteristics of MTEFs**

Key technical characteristics of a fully functioning MTEF can be defined. These include a medium term fiscal framework, estimates of the future costs of existing policies, and sector strategies setting out sector and sub-sector priorities for future spending. While these elements are unlikely to all be in place before an MTEF is introduced, making progress towards them is a critical part of early MTEF development.

An MTEF is an integral part of the annual budget cycle and typically consists of:

i) A top-down resource envelope consistent with macroeconomic stability and broad policy priorities;

ii) A bottom-up estimate of the current and medium term cost of existing national programmes and activities;

iii) An iterative process of decision-making, matching costs and new policy ideas with available resources over a rolling 3–5 year period.

The characteristics listed in Box 1 point to obvious linkages between MTEFs and PRSPs (see Figure 1 overleaf). A PRSP lays out in detail the poverty reduction priorities of a country, identifying specific policies and strategies, and ways to monitor progress in each sector. Therefore, while PRSPs identify the long-term objectives and priorities for poverty reduction, the MTEF provides the framework for allocating resources, within which explicit policy choices and trade-offs are made depending on resource availability.

Given the increasing importance placed on the development of an MTEF to support PRSP implementation, it is useful to assess progress made so far in the development and use of MTEFs in different countries, and to investigate the nature of linkages with PRSPs. In general, the case studies on which this briefing paper is based suggest that MTEF implementation appears to be a significant driver of wider reform. At a broad level, and based on a qualitative assessment, the countries can be divided in terms of the direction of the development of their MTEFs in the following categories:

i) ‘Maturing’ (South Africa, Uganda)

ii) ‘Getting it together’ (Albania, Benin, Rwanda, Tanzania)

iii) ‘Struggling’ (Burkina Faso, Cameroon, Ghana)

**Key Findings from the Case Studies**

**Initial Conditions**

The general message from the case studies is that initial conditions do matter when introducing an MTEF, but that the MTEF itself can be a valuable catalyst for building basic budget conditions (e.g. improved fiscal stability and expenditure control). The Tanzanian case in particular illustrates how initial conditions can help explain progress with the MTEF. Strong leadership from the Ministry of Finance, progress in macroeconomic and fiscal stabilisation, concurrent development of a basic but integrated financial management system and strong stakeholder involvement helped the process of MTEF implementation and the MTEF itself stimulated further improvements in budget basics.

Similarly in South Africa and Uganda, the introduction of an MTEF promoted the development of budget basics and also increased internal demands for greater budget comprehensiveness (i.e. capturing a greater amount of resources ‘on-budget’).

In the absence of favourable initial conditions, some countries have tried a partial introduction of an MTEF, covering only a sub-set of sectors. On balance, the evidence from the case studies suggests that to be effective, the MTEF needs to cover the whole of government, while recognising that sectors will develop at different speeds. A key point is that the weaker the basics the less onerous MTEF design should be.

**Integration**

Integration of the various phases of the budget cycle, including the MTEF, and with other key policy and planning processes, including the PRSP, is central. Evidence from the case studies suggests that an integrative MTEF process is the single most significant factor distinguishing the maturing case countries from the others. In an integrative process, there is a seamless progression from the setting of the aggregate resource envelope to the allocation of resources and then to the detailed annual budget estimates submitted to Parliament. Such integration...
can ensure that the various actors at each stage of the process have an understanding of how their actions affect the process, and can use this understanding to modify their behaviour in order to support the common goal of a more performance-oriented public sector.

A key characteristic of the implementation of the MTEF in the maturing countries (and in Albania) is a clear budget timetable that allows sufficient time for a strategic planning phase and for the preparation of detailed budget estimates. This reflects the efforts of these countries to achieve integration, but also their recognition of the importance of a predictable budget process. Evidence from other country cases (e.g. Burkina Faso, Cameroon, Ghana) is that frequent changes to the budget timetable can create uncertainty and undermine credibility of the process.

On another level, integrated institutional arrangements are also conducive to effective budget management. Separate budget and planning agencies can undermine the comprehensive approach to budget making. However, where there is no immediate prospect of creating a single budget agency, clear institutional arrangements are necessary to ensure a ‘joined-up’ planning and budgeting process. Linkages to the PRSP process are also aided by ensuring that the PRSP process is coordinated by the same budget agency.

**Fiscal Stability & Sustainability**

Early attention to fiscal stability is of fundamental importance to the implementation of an MTEF. Aside from the more obvious reasons linked to macroeconomic stability, fiscal stability plays a critical role for the MTEF and the budget process, improving the predictability of funding and its subsequent positive implications for rational and efficient budget implementation. Evidence from the case studies indicates that honesty and realism in setting the aggregate resource constraint are key factors for achieving predictability.

Aggregate estimates are prepared in the first stage of the budget cycle and it is at this point where greater honesty and realism can lead to improved predictability in expenditure. While problems in defining a realistic aggregate resource constraint can stem from a number of domestic factors (e.g. incentives to overstate revenue, overoptimistic assumptions about revenue etc.), for most of the study countries donor funding is even more volatile. Donors need to place a much higher value on providing predictable funding flows, particularly in the case where donor assistance takes the form of budget support. As a response to this volatility, for example, Uganda adopts ‘discounted’ forecasts of donor inflows to ensure greater predictability in the budget process.

**Priority Setting & Resource Allocation**

The case study analyses suggest that the MTEF has its greatest impact at the stage of priority setting and resource allocation. This is also the most obvious point of intersection between the MTEF and the PRSP.

Through the provision of a realistic, hard budget constraint, and effective political engagement (see below), the MTEF/budget process legitimises policy choices, leading to greater credibility of resource ceilings, budget allocations and predictability of funding. Translating the aggregate resource constraint into budgetary allocations is increasingly happening via top-down ceilings. Evidence from Albania, South Africa and Uganda indicate that these ceilings increasingly reflect sector priorities as well as the aggregate constraint. PRSPs are clearly providing an impetus to injecting priorities into the determination of top-down ceilings. Significant progress is also being made in separating collective (Cabinet) decisions from those appropriately left to individual ministers.

**Political Engagement**

Early engagement with the political decision making process is crucial. The case studies show that where politicians are not involved in the early stages of budget formulation, an MTEF is unlikely to be effective. Engagement at the political level, with Cabinet involvement in the early stages of budget formulation, is the major factor that has begun to give substance to the MTEF process in various case studies, in particular to the credibility of the expenditure ceilings. If politicians are unwilling to be constrained either by a hard budget constraint or by agreed priorities, then the whole budget process will be undermined, leading to poor budget implementation. This also applies to
PRSPs, where strong political engagement in key decision-making stages can help move both the MTEF and PRSP forward (e.g. Uganda, Albania). See Box 2 for further discussion on political involvement.

Box 2: Budgeting and Political Realities
The MTEF concept is underpinned by certain values, such as the values of fiscal discipline and improving budgetary outcomes. It is acknowledged that politicians are often driven by concerns, including re-election, that are not necessarily in line with better budgetary outcomes. It is quite possible that the rational, rule-based approach of the MTEF is quite antithetical to the way in which politics operates in a country, and without political backing, technocratic efforts to construct an MTEF can be left high and dry.

But there are also many instances where it is evident to the political elite, as well as to key technocrats, that if they want to deliver effectively on their ‘political choices’ and build the confidence of their citizens, they need a better budget process to do it. Viewed from this angle, the MTEF (and budget process more generally) becomes not merely a technical instrument for consolidating and optimising the use of resources but a potentially crucial instrument for building and reinforcing political legitimacy and hence domestic accountability.

Strategic Phase to Budget Management
A key lesson from the case studies is the need to create space at the outset of the preparation of the budget for a strategy phase. A tight link between this phase and the preparation of the detailed budget estimates is evident in South Africa. In Uganda and Albania, there are two distinct phases to the budget process. The first focuses on strategy and culminates in the decisions on inter-sectoral budget ceilings while the second involves preparation of detailed estimates within the agreed ceilings, and culminates in the reading of the budget. One important message is that detailed costings at the strategic phase can distract from a focus on priorities and strategies.

A common development has been the introduction of some form of strategic document to help focus discussion and identify options available to decision makers. For example, in South Africa there is the Budget Policy Statement, in Uganda the Budget Framework Paper, in Albania the MTEF document and in Burkina Faso the Circulaire Budgetaire. The value of these documents is that they provide a common framework around which stakeholders can engage in a debate about priorities, options and choices. Such a document has great potential to become the key mechanism for integrating the MTEF and the PRSP.

Measures need to be in place for dealing with existing and new policies. A number of the cases show that more explicit processes for deciding on new policies are being built into the systems, and that the PRSP has the potential to focus attention on this issue. Sector working groups can also be encouraged to develop and consider new policy initiatives and this can help cement the links between policy, planning and budgeting. In contrast, approaches to assess existing policies are less-focused. Indeed it is arguable that one of the great gaps in work on public expenditure management over the last ten years has been the failure to focus attention on the relevance and effectiveness of ongoing policies. The result is that new spending is treated as additional, and spread thinly over too many programmes and activities, rather than prioritised on the basis of an assessment of the effectiveness of existing policies and of their impact on poverty reduction. This highlights a clear gap in MTEF/PRSP integration.

Strategic Management at Sector Level
In addition to strategic planning of the overall budget, a more strategic approach to management at the sector level is very important for enhancing the credibility of budgets and underpinning improved budget execution. For example, the Albanian Ministry of Finance issues guidelines for the preparation of sector expenditure strategies as an integral part of the MTEF/budget process. These guidelines recommend setting indicative resource guidelines and showing how existing resources are allocated across key programme areas within the sector, summarising overall policy objectives of the sector, and providing suggestions for how allocations should change over the coming three-year period.

Similar strategic approaches at the sector level are being implemented in a number of the other case countries (Ghana, Rwanda, South Africa, Tanzania, Uganda), with the help of sector working groups or in the case of Rwanda and Tanzania, through the annual Public Expenditure Review process. A key message from the case country experiences is that the sector strategic management approach should be fundamentally concerned with ensuring that ministers, ministries and agencies challenge existing policy and themselves to ensure the best use of whatever resources they receive.

Budget Execution & Performance Focus
One of the ultimate objectives of an MTEF is to improve the quality of budget execution. A key message is that by contributing to greater predictability of policy and funding, an MTEF can provide the basis for quality budget implementation. Both the MTEF and the strategic sector processes can provide platforms for the introduction and use of performance measures to support expenditure allocations. For example, Tanzania and Uganda require sectors, as part of the budget process, to describe past performance and state on a rolling basis the strategies, objectives and targets they intend to achieve. However, developing and sequencing a performance focus to the budget is not an easy task, and evidence from the case studies indicates that it is difficult to achieve in practice. Moreover, countries tend to be better at setting performance targets in their budget strategies than establishing systems for monitoring and measuring performance, and holding those with responsibility to account.

MTEFs and Decentralisation
One concern about MTEFs is that they are often perceived as a centralising force, even in contexts where decentralisation is official policy. As already noted, the case studies have shown how the MTEF is associated with a shift to a more strategic approach to decision making and, associated with this, a clearer distinction between collective decisions at the centre and individual sector decisions. A decentralised system of government increases the complexity of resource allocation decisions, but an MTEF can help clarify expenditure assignments and therefore support decentralisation efforts. While every solution to this problem will be country-specific, more attention needs to be paid to matching authority and responsibility between levels of government.

MTEFs and PRSPs: The Linkages
The key point of intersection between an MTEF and the PRSP, as already mentioned, is at the stage of priority setting and resource allocation. The country studies suggest that where the MTEF has focused on providing a disciplined framework for decision making about strategic resource allocation, it has forced attention onto policy priorities. With the explicit focus...
on poverty reduction generated by the PRSPs, this appears to be putting some backbone into recent and/or faltering MTEFs. 4

However, it is also clear from the case studies that there are risks of focusing too much on PRSP priority programmes and expenditures, leading to unbalanced allocations. For example, in Tanzania, non-wage recurrent expenditures are prioritised to the PRSP priority sectors and programmes. This leads to increased uncertainty over whether and when non-priority programmes will receive funding, with resultant risks to efficiency and effectiveness in these latter programmes. Measures need to be in place to reduce the uncertainty faced by non-priority sectors in the release of funds.

The macroeconomic framework is expected to be the same for the MTEF and the PRSP and, similarly, the aggregate resource constraint will be the same for the MTEF and for poverty reducing expenditures. Yet the PRSP raises the issue of a desire to support an expanded resource envelope to accommodate increased aid flows to contribute to poverty reduction. This is a complex issue and a major concern is that multiple sources of funds will risk softening the budget constraint. Thus a key objective of the MTEF process must be budget comprehensiveness, capturing the full range of resources available to government on-budget. Both the PRSP and budget processes require wide participation in order to ensure ownership and credibility. A key concern is that whatever institutional arrangements are built for participation in the PRSP, they should at least link with those built for budget participation. Consultations around the PRSP priorities need to be timed so as to feed into the MTEF/budget process.

Parliamentary involvement in the budget process is essential to ensure credibility and predictable budget implementation. Evidence from the case studies shows that better costing and target setting as part of the PRSP process can provide the basis for a more vigorous engagement of Parliament in the appropriateness and realism of the detailed budget estimates.

**Recommendations**

One of the truly significant developments coming out of effective MTEF/PRSP linkages is the much sharper focus on the strategic phase of budget preparation and the accompanying political engagement in resource allocation. What the PRSP is also bringing to the budget table is a concern to follow through on the results being achieved.

The central recommendation that arises from the case studies is the need to continue to focus on developing a coherent and integrated process of policy making, planning and budgeting. A second broad recommendation is the need to manage expectations. In the case of the MTEF, this includes managing expectations about additional funding as well as expectations as to the rate of progress in improving budgetary outcomes. In the case of the PRSP, expectations need to be managed around how quickly the PRSP will become the overarching policy framework for all ministries and agencies and how quickly the linkage between performance and resources will develop. A number of more specific recommendations can also be made and listing these also serves as a useful summary of the issues raised in this briefing paper. These are presented in the table below.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recommendation</th>
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<tr>
<td>Budget Basics</td>
<td>Build the Basics to support MTEF and PRSP implementation, particularly in the area of basic budget discipline</td>
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<tr>
<td>Comprehensive Budget</td>
<td>Work to make the budget/MTEF as comprehensive as possible</td>
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<tr>
<td>Institutional Set-up</td>
<td>A single central agency is preferable for coordinating all aspects of the expenditure side of the budget. PRSP implementation is also facilitated where it is coordinated by the same budget agency</td>
</tr>
<tr>
<td>Credible Resource Constraint</td>
<td>Realistic and honest estimates for both likely revenues and expenditures are vital if the aggregate resource constraint is to be credible</td>
</tr>
<tr>
<td>Political Engagement</td>
<td>Involve Cabinet early on in decision making about the budget</td>
</tr>
<tr>
<td>Top-Down Ceilings</td>
<td>Top-down ceilings, reflecting not only the aggregate resource constraint but also broad strategic sector priorities, should be employed as a key MTEF mechanism and to facilitate the linking of the MTEF and the PRSP</td>
</tr>
<tr>
<td>Strategic Phase to Budgeting</td>
<td>Support the strategic phase of budget making with a document such as a Budget Framework Paper</td>
</tr>
<tr>
<td>Sector Working Groups</td>
<td>Sector working groups, mandated to coordinate the development of strategic approaches to budgeting and to engage stakeholders, should be established where an MTEF and PRSP exist</td>
</tr>
<tr>
<td>Performance Orientation</td>
<td>Developing a more performance oriented budgeting system should begin with the centre focusing on improving funding and policy predictability through the MTEF and PRSP and line ministries focusing on developing clearer objectives and strategies, programme and strategic management capabilities and performance information</td>
</tr>
<tr>
<td>Resource Use</td>
<td>The efficiency and effectiveness of resource use must receive more attention</td>
</tr>
<tr>
<td>Decentralisation Context</td>
<td>MTEFs and PRSPs being implemented in a country pursuing decentralisation should be managed in such a way as to support decentralisation</td>
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The synthesis paper and all case studies can be downloaded from: www.odi.org.uk/PPPG/cape/publications.html

*For bibliography see next page.*

**Endnotes**

1. Malcolm Holmes and Alison Evans (2003): ‘A Review of Experience in Implementing MTEFs in a PRSP Context: A Synthesis of Eight Country Studies’. The Albanian case study. The Albanian case study was prepared separately and is included by kind permission of the World Bank author. The other studies were undertaken in 2002/03, with financial assistance from DFID and the EC.

2. As about two years have passed since the case studies were carried out, the situation in some of the countries may have changed.

3. On this issue, see also CAPE’s work on Results-Based Management, available at: http://www.odi.org.uk/PPPG/cape/publications.html

4. Although exceptions to this are Uganda where the poverty focus of the MTEF pre-dated the donor-driven PRSP, and South Africa where there has been a less explicit poverty focus.

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