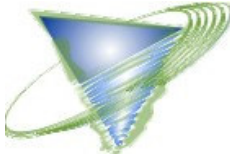


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**EXPERIENCES WITH MEDIUM-TERM EXPENDITURE  
FRAMEWORK IN SELECTED SOUTHERN AND EASTERN  
AFRICAN COUNTRIES**

***A COMPARATIVE STUDY FOR THE SOUTHERN AND EASTERN AFRICA POLICY  
RESEARCH NETWORK (SEAPREN)***

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**Institute for Policy Analysis and Research**

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## **Disclaimer**

The opinions presented are those of the authors and should not be regarded as the views of the SEAPREN.

## **Abstract**

This study is a comparative analysis of the experiences with Medium Term Expenditure Frameworks (MTEFs) in Selected Countries of Southern and Eastern Africa, namely: Botswana, Tanzania, Zambia, Kenya and Namibia. Broadly, the study analyses the performance of MTEFs in relation to fiscal discipline, allocative efficiency, and operational efficiency using the World Bank integrated comprehensive framework. The findings of the study indicate that countries have made progress in realising the objectives of MTEF. A common achievement is the linking of policies, planning and budgeting and therefore shifting budgetary resources to priority areas, in particular, poverty reduction. Further, MTEF provides for a consultative process. This has improved transparency, particularly with regard to sectoral allocations. Preparation of medium-term strategic documents has also helped investors to understand the government medium term strategy. Nonetheless, the findings also indicate that no country has been able to fully implement a complete MTEF. The surveyed countries are still characterised with under/overspending resulting in budget reallocations through supplementary estimates due to failure by line ministries and government agencies to adhere to their spending limits, inadequate capacities that have resulted in unrealistic forecasts, low political commitment and lack of endorsement of difficult decisions involved in restructuring of expenditures. The study recommends further investment in capacity building, establishment of parliamentary budget offices and enforcement of stringent expenditure control.

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## List of abbreviations

BSP	Budget Strategy Paper
BOPA	Budget Outlook Paper
IFMIS	Integrated Financial Management and Information Systems
IMF	International Monetary Fund
IPAR	Institute for Policy Analysis and Research
MoF	Ministry of Finance
KIPPRA	Kenya Institute of Public Policy Research and Analysis
KTMM	Kippra-Treasury Macro Model
MACMOD	Macroeconomic Model for Tanzania
MEMBOT	Macroeconomic Model for Botswana
MCGs	MTEF Consultative Groups
MPSA	Ministries Provinces and Spending Agencies
MTEF	Medium Term Expenditure Framework
MWG	Macro Working Group
NAMEX	Namibian Macro-econometric Model
NAMMAC	Namibian Macroeconomic Model
NDP	National Development Plan
PER	Public Expenditure Review
PRS	Poverty Reduction Strategies
RPFb	Rolling Plan and Forward Budget
SAGS	Sector Advisory Groups
SAM	Social Accounting System
SBAS	Strategic Budget allocation Information System
SEDOBI	SEAPREN Database on Budget Issues
SEAPREN	Southern and Eastern Africa Policy Research Network
SWGs	Sector Working Groups
UNDESA	United Nations Department of Economic and Social Affairs

## 1. Introduction

The development debate has increasingly focused on governance as a prerequisite for investment, economic growth and poverty reduction (Olson 2000). UNDESA (2000) broadly defines Governance as 'the existence of political, economic and administrative authority to manage a nation's affairs comprising the complex range of mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise rights and obligations and mediate differences'. According to Fjeldstad *et al.* (2004), governance should specifically address the traditions and institutions by which authority in a country is exercised to include: the process by which government is selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.

Though there is no common framework of good governance applicable to all countries, UNDESA (2000) has identified the following basic criteria for a country to have good governance. The country's governance should be: participatory; democratic; transparent; aiming at sustainable development; promoting equity and equality; able to develop the resources and methods of governance that promote gender balance; promoting the synthesis of diverse perspectives; mobilising resources for social purposes; strengthening indigenous mechanisms and ensuring effective and efficient use of resources; based on the rule of law; engendering and commanding respect and trust; having public servants that are accountable; having government organisations that are service oriented, acting as facilitative and enabling regulatory rather than controlling; and creating a conducive economic environment for economic growth and social progress.

The concept of governance has three pillars: Economic, political and administrative. According to Chaligha *et al.* (2007), economic governance refers to decision making processes that influence a country's economic activities and its relations with other economies. Political governance is the process of decision making to formulate policy and, administrative governance is the system of policy implementation. Economic, political and administrative governance is largely exercised through the budgetary process.

Governance is not the sole prerogative of the state. Fjeldstad *et al.* (2004), note that it involves both the private and public sectors. This notwithstanding, the quality of governance is highly dependent on the capacity of government and it presupposes the existence of well-defined and well-established frameworks to ensure political accountability, freedom of association and participation, equitability of distribution of resources, transparency, and effective and efficient public sector management.

Government is responsible for the management and implementation of the budget<sup>1</sup> which is a key element of governance. Weaknesses in the budget system like the existence of supplementary budgetary provisions are an obstacle to good governance and development. Since budget systems in many countries have been changed through the introduction of Medium Term Expenditure Frameworks (MTEF) it is important to analyse and compare the development of MTEFs in various countries and the extent to which MTEFs further or negate good governance in terms of adherence to budget limits, efficiency in spending and consistency in priorities.

### 1.1. Objectives of MTEF

The Medium Term Expenditure Framework (MTEF) defines a three-year rolling macroeconomic framework, which outlines the overall resource envelope and forms the basis for setting of national priorities and expenditure prioritisation. It is the latest reform in the budgeting process that attempts to link planning and budgeting by focusing on public expenditure management. MTEF provides a linking framework and facilitates the management of policies and budget realities to reduce pressure throughout the whole budget cycle (World Bank 1998).

According to Fjeldstad *et al.* (2004 p.2):

MTEF is a set of recommendations for the overall medium term planning, the fiscal policy and budgeting processes aiming to achieve three important objectives:

1. to maintain aggregate fiscal discipline;
2. to ensure allocation of resources in accordance with strategic priorities (allocative efficiency); and
3. to provide line ministries and agencies predictability in policy and funding so that they can plan ahead, their programmes can be sustained and they can make sure that resources are used efficiently and effectively (operational efficiency).

### 1.2. Objectives of the Paper

This study is a comparative analysis of the experiences with Medium Term Expenditure Frameworks in selected countries of Southern and Eastern Africa, namely: Botswana, Kenya, Namibia, Tanzania and Zambia. Broadly, the study conducts a comparative analysis of the performance of MTEFs in these countries to help policy makers identify success factors and therefore improve mid-term budgeting. In analysing the experiences, challenges and the future of MTEF in the various countries, the study examines how countries have domesticated the MTEF formulation, approval and implementation of the budget and to what extent they have

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<sup>1</sup> A budget is an annual plan that outlines a government's major sources of revenue and how such revenues are to be spent to achieve specific objectives

managed to address the challenges in implementing the budget using the World Bank framework. Specifically, the study analyses:

1. The implementation of MTEF in Various Countries;
2. The achievements resulting from the implementation of MTEF;
3. Challenges encountered in the implementation of MTEF; and
4. The future of MTEF.

## 2. Methodology

### 2.1. Conceptual Foundations of MTEF

The MTEF 'package' has been recommended to a large number of developing countries by the World Bank and the International Monetary Fund (IMF) and is now under implementation in many countries in Eastern and Southern Africa. World Bank (1998) sets out seven stages of a comprehensive MTEF integrated bottom-up/top-down strategic planning process as follows:

- Stage 1. *Development of a macroeconomic framework* to be used for making projections of revenues and expenditures for a period of three years. This involves constructing and using models with a wide participation of interested parties to discuss the different perceptions, relevant relationships and data requirements and linking economic projections to fiscal targets to iron out inconsistencies during the transition from planning to budgeting such as over commitment. This is a necessary step to achieve aggregate fiscal discipline.
- Stage 2. This stage which runs parallel with stage one involves a *sector review* by sectors/ministries to agree on objectives, outputs and activities; reviewing/developing agreed programs and subprograms; and *costing* of agreed programs. Also at this stage, *performance indicators* are developed and *program prioritisation* done. This is necessary to ensure that program costs fit within available resources.
- Stage 3. This stage involves a series of *hearings* between the Ministry of Finance and sector ministries to go over the outputs of the sector reviews conducted in stage 2.
- Stage 4. *Development of a strategic expenditure framework* by the Ministry of Finance to guide deliberations of the decision making body (Cabinet or the Council of Ministers) to analyse the trade-offs between and within sectors and establish sector expenditure ceilings for the three year rolling budget. The framework must include clear statements on: broad objectives of policy and the role of government in the economy; the need for discipline in macroeconomic management; targets for broad aggregates of public revenue and expenditure; procedures for setting and revising the expenditure framework; and the responsibilities of the key agencies. For this framework to enforce aggregate discipline, it demands a high level of consensus among the key players.

- Stage 5. This stage requires the main decision-making body in government (Cabinet or the Council of Ministers) to make medium-term sectoral resource allocations on the basis of affordability and inter-sectoral priorities by *defining sector resource envelopes* for a period of three years. For the ceilings to be credible, they should not change so much during the cycle. Restraint and discipline in defining the sector resource envelope increases predictability of resource flows, thereby increasing operational efficiency, and permits greater flexibility in the management of the resources.
- Stage 6. Ministries make *revisions to the budget estimates* to make them fit within the approved ceilings.
- Stage 7. The Ministry of Finance *reviews* again the revised ministerial budget estimates and presents them to the Cabinet and Parliament for *final approval*.

The above stages are interlinked. This implies that if the activities of a particular stage are not well articulated, the inadequacy affects the succeeding stages. This makes the implementation of the MTEF process complex. According to the World Bank (1998), the success of the MTEF hinges on a variety of factors to include: political commitment and endorsement of difficult decisions involved in restructuring of expenditures; strong management of donors to ensure operations within the framework of MTEF; subordination of policy decisions and their financial implications made outside the budget process to the discipline of MTEF; understanding and commitment to difficult decision at sector/ministry level; commitment to budget decision and restraint from budget reallocations; improvements in expenditure controls to avoid over-expenditures and reallocation of funds during budget implementation; improved macroeconomic management and revenue collection to avoid adjustments to the budget estimates once revenue targets are not met; briefing of politicians and senior management during implementation; improvements to expenditure reporting on results; and development of a computerised accounting system.

## 2.2. Sample Design, Data Sources and Collection

The sample comprises countries in Eastern and Southern Africa, namely; Botswana, Kenya, Namibia, Tanzania and Zambia. Among these countries, it is only Botswana that does not have a *formal* MTEF system. This notwithstanding, it is included in the analysis not as a control case, but rather as a country with its own form of MTEF. In all these countries data collection has been undertaken by local institutions that are members of the Southern and Eastern Africa Policy Research Network (SEAPREN) and amalgamated in a SEAPREN database.

For this study we have used both secondary and primary data. Secondary data was sourced from reviews of literature on the budgetary process and economic governance and narrative reports on SEAPREN database on budget issues from the five countries. The primary data is from the comprehensive questionnaires administered in the various countries. The questionnaires collected information on

introduction of MTEF (why, by whom and when), MTEF time frame, multi-year expenditure estimates, MTEF calendar, expenditures ceilings, MTEF linkage to other macroeconomic targets, legality of MTEF, Strengths and weaknesses of MTEF, obstacles in implementing MTEF, and future of MTEF.

### **3. Findings**

#### **3.1. Implementation of MTEF**

As noted earlier, with the exception of Botswana, all case countries have implemented a formal MTEF. The conceptualisation of the framework and its utilisation across countries was however lagged. The introduction of MTEF in Kenya followed a Public Expenditure Review (PER) carried out in 1997 by the Government and the World Bank that identified poor macroeconomic management; declining credibility of the budgetary process, and declining quality of public investments as the main weaknesses in public expenditure management (Republic of Kenya 1997). MTEF was implemented in 2000/01 and was aimed at: linking the annual budgets to the long term development policies, objectives and plans; improving macroeconomic growth targets by developing a consistent and realistic resource envelope; improving the allocation of resources to agreed strategic priorities both between and within sectors; generating a commitment of ministries and departments to increased predictability in resource allocations so that the spending agencies can plan ahead; increasing incentives for more effective (better targeted) and more efficient utilisation of resources by ministries and departments, by providing them with predictable funding levels and increased autonomy, and formulating the budget in the context of a more consultative process that involves stakeholders.

The introduction of MTEF in Tanzania covered fiscal years 1999/2000 - 2001/02. This succeeded the Rolling Plan and Forward Budget (RPF) introduced in 1992/93 that aimed at strengthening the linkage between development planning and the budget process. Although the RPF is credited with the introduction of multi-year budgeting that was linked to a macroeconomic framework, the framework was unable to project the resource envelope with precision, was hampered by the institutional separation of responsibility for planning of the development budget under the Planning Commission and the recurrent budget under the Ministry of Finance, and because the Planning Commission led the RPF exercise, the framework was perceived as being focused primarily on development budget and consequently failed to contribute to better prioritisation of recurrent spending. Thus the introduction of the MTEF initiative from Government aimed to: provide a broad budgetary strategy within which the annual budget could be prepared; link the budget process to Tanzania's poverty reduction strategy and therefore address the problem of poor linkage between planning and budgeting; ensure involvement of stakeholders in the budgeting process; ensure programmes are properly prioritised and costed and enhance sustainability and efficiency of the budget; and to provide a

mechanism through which analysis of budgetary performance could be fed back into the budget planning process (Tax, 2004).

Tanzania and Kenya have integrated their project aid into the MTEF. This is intended to improve estimates of total government expenditure, and in turn budget management and macroeconomic planning. It is expected to help ensure that donor funded projects are brought into the annual budget process and that the projects reflect both overall and sector priorities of government. Further, in both countries the MTEF is closely linked to the poverty reduction strategies and the public expenditure reviews which provide annual updates on sectoral performance. This feedback informs revision in subsequent budgets as changes in priorities are incorporated into the budget.

In Zambia, MTEF came about following a Cabinet decision in 2003 to reform the budget system by preparing a medium term national development policy as opposed to relying on single-year budgets. The Zambian framework aimed at ensuring efficiency in allocation and management of public resources, developing and maintaining fiscal discipline, ensuring commitment to budget priorities at national and sectoral levels and improving accountability and predictability of national resources (Mudenda *et al.* 2005). The framework was first utilised in the 2004/05 budget.

In Botswana the concept of MTEF is subsumed under the concept of six year medium term development plans. The Botswana National Development Plans (NDPs) have served the purpose of MTEF for the country by providing a platform for integrating policymaking, planning, and budgeting in a way that has led to sustainable budget outcomes. Further the NDPs have had key features of MTEF such as being founded on a set of policy objectives that are derived from principles and a macroeconomic framework that seek to achieve prudent fiscal management, transparency, accountability and fiscal responsibility (Agiobenebo 2007). A mid term review after three years of each plan undertakes a revision of budget targets. The Botswana NDPs are therefore in many respects similar to the MTEF.

In Namibia, a cabinet decision was made in 1996 to reform the budget system with the objective of implementing a fully-fledged performance based budgeting system (Shilimela 2006). The framework was used in the formulation of the 2001/02 budget. Namibia first piloted the framework in four ministries before rolling it out to all ministries. The initiative aimed at improving: the balance of state finances by planning the fiscal policy in the medium term and developing a realistic resource framework; allocation of resources to government's priorities by extending the planning period; financial planning in the line ministries by increasing the predictability of available resources; the planning of recurrent cost implications for capital expenditure; and providing the private sector with the relevant information on budgetary policies in the medium term, thereby improving the information base for private investment decision.

As for Kenya, Tanzania and Zambia the framework involved all public entities whose activities are financed by the government. All these countries received donor

assistance, especially from the World Bank, for capacity building in design and institutionalisation of the framework. This notwithstanding, it is important to note that long before the introduction of MTEF, some of the case study countries had instituted a number of budgetary reforms to address country specific deficiencies in the planning and budgeting processes. For instance, the use of forward planning in Kenya dates back to 1985 when the government attempted to relate the five-year NDPs and recurrent expenditures through three-year rolling plans and Tanzania introduced in 1992/93 the rolling plan and forward budget to strengthen the linkage between development planning and the budget process, initiatives that are similar to MTEF.

With the exception of Kenya where the Ministry of Planning was initially the leading advocate of the MTEF, in the other countries, the ministries of finance led the initiative. Due to its placement in the Ministry of Planning, the introduction of MTEF in Kenya received opposition from the Ministry of Finance due to perceived loss of power in allocation of resources. This friction was however eased in 2005 when the framework was moved to the Ministry of Finance.

Unlike Zambia whose MTEF is relatively new (first used in 2004), the Kenyan, Namibian and Tanzanian MTEFs are very comprehensive. They present revenues and expenditure estimates by source and use. For Kenya and Tanzania the estimates are based on an annual budget outlook papers which present macroeconomic targets that define the resource envelope on which the budget is based. Besides Kenya's budget outlook paper (BOPA) which is informed by projections from the Kippra<sup>2</sup> Treasury Macro Model (KTMM), Kenya also prepares a budget strategy paper (BSP). The BOPA is revised annually and it presents the outlook of the economy over a period of three years by presenting an elaborate medium-term fiscal framework which determines the overall resource envelope and provides the background and parameters which form the basis for the detailed budget. Subsequently, the BSP translates all core government policy statements into coherent medium-term expenditure plans within the aggregate resource envelope, and provides an early signal to the development partners regarding Kenya's strategic thrust and priorities for the next budget. Basically, the BSP provides an update of available resources and sets firm sector and ministerial ceilings and expenditure priorities that are to be approved by parliament. These two documents emphasises to line ministries the importance of viewing resource allocation from a medium-term perspective rather than from a short-term perspective of a single financial year.

The Tanzanian budget outlook paper is based on three models. The first model, macroeconomic model for Tanzania (MACMOD) is used for planning and providing a qualitative framework for forecasting and policy analysis. The second model, known as the strategic budget allocation information system (SBAS) is used to link the

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<sup>2</sup> Kippra refers to the Kenya Institute for Public Policy Research and Analysis

Tanzanian national strategy for growth and poverty reduction targets and resource requirements with the MTEF. The third model, is a social accounting matrix (SAM) for Tanzania which is used to estimate the impact of fiscal policy on growth, poverty reduction and the progress made to attain the country's Vision 2025,

In Zambia, MTEF presents only expenditures, though reforms are underway for the framework to present all sources of national funds. The Botswana budget is guided by its national development plan (NDP) in setting out its fiscal policy. The NDP covers all domestic revenues, external financing and expenditures. The NDP is based on projections from a macroeconomic model for Botswana (MEMBOT) which provides forecasts for all major macroeconomic aggregates. In the three year mid term reviews account is taken of the strategic policy priorities within and between sectors and any changes during the course of implementation. In Namibia, two economic models are used by the budgetary institutions to drive the assumptions that underlie the economic outlook and budget documents. These are the Namibian Macroeconomic Model (NAMMAC) and Namibian Macro-econometric Model NAMEX.

MTEF in these countries defines a three-year macroeconomic framework, which outlines the overall resource envelope and forms the basis for setting of national priorities and expenditure prioritisation. The first year of MTEF forms the annual budget expenditure estimates. However, the first outer-year is not automatically rolled as the next year's budget. It only serves as a useful guide as new programmes and projects are incorporated into the budget due to changes in national priorities. In terms of expenditure categorisation, the broad classification is similar across all countries. Expenditures are categorised as development (capital investments) and recurrent expenditures (personnel emoluments and other charges). This is because in these countries the budget is basically administrative and as such is organised into votes, sub-votes, heads and appropriations in aid. The MTEF process of the case study countries is summarised below against the World Bank framework. Botswana is omitted from the Table because it does not have a formal MTEF.

**Table 1 MTEF process<sup>3</sup>**

<b>World Bank Framework</b>	<b>Kenya</b>	<b>Namibia</b>	<b>Tanzania</b>	<b>Zambia</b>
Stage 1: Macroeconomic Framework (availability of resources)	Preparation of budget outlook paper (BOPA)	Preparation of macroeconomic forecasts Formulation of fiscal policy	Review of performance and costing of PRS targets Updating and rolling forward of macro framework Definition of resource envelope	Review of macroeconomic indicators, fiscal deficits and sectoral performances Preparation of macroeconomic framework- projections, and aid inflows by the MoF and sector advisory groups (SAGs) Preparation of green paper
Stage 2: Sector review of ministry objectives, outputs and activities  Agreement on sectoral/ministry programs and sub-programmes  Costing of agreed programs/subprograms for 3 years	Submission of district input to ministry headquarters Preparation of Ministerial Public Expenditure Reviews (MPERs)	Preparation of medium-term plans Review of all budget requests by MoF Analysis and compilation of additional request Preparation of development budget by the National Planning Commission Preparation of the national budget, and MTEF by MoF	Evaluation of budget performance and identification of budget reforms Further updating of resource envelope	Definition of sector goals and outcomes by MTEF consultative groups (MCGs) Review of MPSAS objective and programmes Harmonisation of sector priorities with development plan priorities and the macroeconomic framework Review of output on sector objectives from MCG by SAGs Costing of activities by MPSA
Stage3: Hearings to agree on objectives and priority programs	Stakeholder consultations of BOPA Stakeholder consultations on BSP Holding of sector hearings Consultations with donor partners Finalisation of BOPA and presentation to cabinet	Presentation of the budget and MTEF to the Central Bank of Namibia and the preparation of revised budget for comments Presentation of MTEF to treasury cabinet committee Presentation of MTEF to cabinet	Consultative Public Expenditure Review (PER) involving government, development partners, civic organisations	Budget hearings with the MoF to discuss BFP Presentation of green paper to parliamentary committee and civil society for comments
Stage 4: Detailed expenditure framework	Preparation of Budget Strategy Paper (BSP)	MoF complies a summarised MTEF Issuance of medium-term ceiling by	Deliberations on sector and agencies resource ceilings	Preparation of budget framework paper BFP and annual budget

<sup>3</sup> Reference: SEDOBI, 2006 for Kenya, Namibia, Zambia, Tanzania

<b>World Bank Framework</b>	<b>Kenya</b>	<b>Namibia</b>	<b>Tanzania</b>	<b>Zambia</b>
and sector/ministry ceilings for 3 years	Issuance of budget guidelines together with approved BOPA	treasury	Cabinet approval of budget guidelines and resource ceilings Issuance of budget guidelines and MTEF resource ceiling by MoF	estimates by MPSA
Stage 5: Approval of Ceiling by Cabinet	Presentation of BOPA to Cabinet Submission of BSP to Cabinet for approval	Presentation of macroeconomic framework to cabinet Determination by cabinet of national objectives based on NDP Presentation of resource envelope to cabinet	Review of draft budgets by the national budget committee Submission to parliament of draft estimates Cabinet approval of draft budget	Discussion MTEF documents and approval of final ceilings by cabinet Issuance of Ceilings by MoF to ministries, provinces and spending agencies (MPSA)
Stage 6: Preparation of 3 year estimates by ministries within Cabinet approved ceiling	Review of sectoral priorities and submission of sector reports to Treasury -Preparation and submission of itemised budget by line ministries	Finalisation of the budget book, MTEF and budget speech by the MoF	Preparation of budget memorandum reviewing expenditure priorities and plans by line ministries Preparation of detailed MTEF and budget proposals Consolidation of agency budgets Submission of budgets to national budgets committee Review of sector budget memorandum by sector committees	Incorporation of comments from the budget hearings and the Green paper into the MTEF and annual estimates
Stage7: Review of estimates in Treasury and Presentation to Cabinet and Parliament	-Review and finalisation of itemised budget -Submission of budget estimates to Cabinet -Finalisation of revised estimates -presentation of budget to parliament	Presentation of Budget before parliament by the Minister for Finance Debate and approval of budget by Parliament	Incorporation of changes into final budget by Ministry of Finance Submission of Finalised budget to parliament Debate and approval of budget by parliament	Approval of MTEF documents and estimates by cabinet Presentation of the budget before parliament Discussion and approval of budget by parliament

Source: Survey Data.

The time schedule when specific MTEF activities take place has been omitted in Table 1. This is because countries have different fiscal years. The fiscal years for Botswana and Namibia run from 1<sup>st</sup> of April to 31<sup>st</sup> March. For Kenya and Tanzania, the fiscal year runs from 1<sup>st</sup> of July to 30<sup>th</sup> June. That of Zambia runs from 1<sup>st</sup> of January to 31<sup>st</sup> of December. Also, the schedule of budgeting activities for Botswana has been omitted in Table 1. This is because Botswana does not have 'a formal MTEF' in the classical definition of the World Bank. Botswana only prepares annual budgets with one-year estimates grafted to historical past (incremental budgeting). In Botswana the budget for the first year of a plan is the same as the one presented in the NDP at the start year of each of them. This is unlike in countries with formal MTEF that prepare three-year rolling budgets. Nonetheless, Botswana budget process is strongly linked to its six-year medium-term development planning with a three-year rolling plan.

The preparation of Botswana NDP utilises forecasts obtained from a macroeconomic model for Botswana (MEMBOT). Kenya and Tanzania also have macro models. Like in Kenya and Tanzania, the macroeconomic model for Botswana provides forecasts of all major economic aggregates. The forecasts present three scenarios: the base case scenario, optimistic scenario and the pessimistic scenario. In Botswana the NDP priorities underlie budgetary allocation. This is also the same with countries with formal MTEF. The difference comes in terms of periodic reviews of priorities. Kenya, Namibia, Tanzania and Zambia prepare three-year rolling budgets, and the macroeconomic forecasts and priorities underpinning the budget are reviewed annually. This is not the case with Botswana, whose investment spending programmes are reviewed after a period of three years. During the review, all countries surveyed take account of changes in strategic policy priorities and this informs the review and modification of programmes, projects and estimates. New programmes and projects are also admitted into the budget at this stage.

The ministry of finance is the lead institution in the MTEF process in all countries. The ministry of planning (planning commission), the central bank, the revenue authorities and parliament also play important roles. However, as depicted in Table 1, the differences of activities bring about the differences in the level of domestication of the World Bank MTEF across countries. Table 1 reveals that the MTEF process involves extensive consultations. This is also true in the preparation of NDP in Botswana which also involves wide consultations starting with village consultations. Preceding the preparation of the budget, all countries prepare a key policy document. Though the name given to this document differs across countries as indicated in Table 1, the information contained in the document is basically the same: the economic performance of the country and its outlook.

In sum, countries with formal MTEF have basically incorporated into their domestic frameworks the World Bank seven stages of a comprehensive MTEF integrated bottom-up/top-down strategic planning process. The tenets of the comprehensive framework include: a macroeconomic framework; sectoral reviews; public hearing; strategic expenditure framework; definition of resource envelope; preparation of

budget estimates by ministries/sectors based on ceilings; and preparation of annual budget and its presentation to parliament for approval.

### **3.2. Achievements of MTEF**

Countries have achieved significant progress through the implementation of MTEF. A common achievement across countries is in relation to linking policies, planning and budgeting and shifting budgetary resources to priority areas. Other achievements realised are as varied as the objectives (problems) that underlay the introduction of MTEF in the various countries involved in this study. However, Botswana which uses its NDP instead of the orthodox MTEF has also achieved a lot. The use of NDPs has led to: the formulation of a holistic, balanced and well-sequenced development strategy; integration of plan objectives into a medium-term budgetary framework; realistic projections in terms of major macroeconomic aggregates; effective linkage between the medium term fiscal policy and the annual budget; and sustained high and robust growth. In Namibia, MTEF has improved transparency especially in terms of justification of budget appropriations (outcome based budgeting) and also in terms of viewing fiscal policy in the medium term. Also the framework has improved accountability and allowed the public to understand government priorities over a medium-term. This is because the framework presents the country's medium term fiscal policy with the budget estimates. Besides, the framework also explains all programmes in terms of inputs required and expected outcomes.

In Kenya and Tanzania, MTEF has made great achievements. The framework has strengthened the position of the Ministry of Finance in coordinating resource allocation. It has promoted a consultative spirit in policy and budget formulation by involving a wide array of key actors and has helped in the refocusing of expenditure priorities to address poverty by linking the budget to the poverty reduction strategy. Further, MTEF has improved transparency, particularly with regard to inter-regional resource allocations as well as by exposing the need to integrate development and recurrent budgets by emphasising strategic spending expenditure planning.

In Zambia the MTEF has complemented the national development plans and the poverty reduction strategies (PRS) by linking annual programmes with periodic plans. The country has abandoned the cash budgeting system in favour of the activity based budgeting and classification of programmes. This has ensured that NDP and PRS priorities are given precedence in the budget. The three-year framework also ensures that financing of capital projects and programmes is predictable in the medium-term. In addition, the fact that the government publishes the MTEF in the print media before the end of the drafting stage of the budget process in seeking contribution from all stakeholder has reduced the opaqueness in the budget process (Mudenda, *et al.* 2005).

### **3.3. Challenges in the implementation of MTEF**

Significant progress has been made towards achieving MTEF objectives in all countries. However, no country has been able to fully realise the objectives of MTEF. This is because the MTEF process continues to face a number of challenges. Though the challenges are similar across the countries, the factors underlying them are different. This is discussed below.

Botswana still continues to register high and rising deviation of actual revenue and expenditure from planned levels as well as deviations of actual revenue from planned forecasts. In effect the country still continues to use supplementary estimates to bridge the gaps in planned expenditures. In addition, availability of budget information to the public is limited. This is because Botswana does not publish the revisions of the medium term programme. This has made it difficult for the public to relate the annual budget to the six-year plans and understand the country's long-term fiscal outlook. Further, Botswana does not have adequate capacity for plan implementation, jeopardising the realisation of goals set out in the NDP and its Vision 2016. Capacity in this country is further constrained due to the HIV and AIDS pandemic and skills mismatch between what is available and what is required to implement the plans (SEDOBI, 2006).

In Namibia, like Botswana, the MTEF has not achieved its objective of fiscal discipline. This is because of non-compliance by some government institutions that have resorted to employment of new tactics to get more resources and failure by line ministries in particular to adhere to their spending limits. There are also cases of under-spending in Namibia. Over the years 2001 – 2005, actual expenditure deviated from budgeted allocation by 0.22 per cent on average, though on a more disaggregated level, the deviations are large (Shilimela 2006).

The Tanzanian framework is faced with a number of challenges. One, the budget emanating from MTEF is unrealistic. This is firstly because information from costing exercises and sector public expenditure reviews have shown significant financing gaps over the MTEF horizon. Secondly, the development budget has not been explicitly treated in the MTEF as has the recurrent expenditure. Thirdly, the framework does not fully integrate donor commitments into the budget. This is because of the donors' inability to commit assistance for the medium term and to share full information on aid flows. Fourthly, there is inadequate capacity in many ministries to carry out analytical work and apply the new approach of output-based budgeting. The capacity challenge has been exacerbated by continued redeployment of government officials even after training, to work stations that often do not necessarily match their training. Other impediments include lack of a legal framework to safe guide continuity of MTEF, inadequate capacity particularly in local government authorities and susceptibility of the framework to contingencies, drastic changes in prices and political interventions (Tax, 2004).

In Kenya the annual Public Expenditure Review reveals a number of challenges in the public expenditure management that have continued to constrain the MTEF from

realising fully its objectives (Republic of Kenya 2005). Key among these is budget reallocations. For instance, exchequer allocation to wages and salaries is often accorded higher priority than the development budget, especially whenever there is a liquidity crisis. There is also a weak link between activity costing in government policy documents, ministerial estimates and budget allocations. These are manifested by variance between approved budgets and budget outturns. Also expenditure analysis is still not comprehensive. Information on semi-autonomous and autonomous government agencies, extra-budgetary funds and fund accounts, and appropriation in aid mechanism is not systematically collected, used for analysis or reported accurately. For instance, local authorities rarely prepare standard budgets and further, they lack capacity and conventional accounting units.

Further, preparation of MTEF in Kenya is time constrained, inhibiting preparation of detailed recurrent budgets to facilitate intra-sectoral reallocations, resource bidding, and appraisal of sector reports. Ministerial plans on which sectoral reports are based have also been prepared with unrealistic resource and capacity estimations. The plans over-estimate institutional capacities and under-estimate financial costs. Also the implementation of annual budgets is characterised by implementation delays, weak links between actual spending and policy priority in a number of line ministries and expenditure leakages and low utilisation capacity with regard to the development budget. The ministries that have the lowest utilisation levels include roads and public works, health, water and transport (Republic of Kenya, 2006). Like Tanzania, other challenges include the lack of a legal framework, inadequate capacity and general non-compliance to budgeting principles of MTEF by public entities, resulting in revisions to the budget through presentation of supplementary estimates.

The MTEF is relatively new in Zambia. According to Mudenda *et al.* (2005) the challenge for the Ministry of Finance and National Planning is to ensure that all stakeholders understand the MTEF process. One of the major setbacks is that the Sector Advisory Groups (SAGs) rarely meet to undertake comprehensive analysis of performance of the sectors. The groups which are supposed to be headed by permanent secretaries in the ministries are often led by directors. This act on behalf of permanent secretaries has reduced the commitment of other SAG members.

### **3.4. The future of MTEF**

With the exception of Botswana which has not implemented a formal MTEF in the classical definition of the World Bank and is not about to implement one, all the other four countries have domesticated their MTEF. Countries have continued to revise their framework to fully realise the objectives of MTEF. In this regard, countries have continued to build capacity of government officials especially those in the budgeting and planning departments and to ensure that information and data generated are credible. Kenya, Namibia and Tanzania have greatly improved their budgeting and financial management systems. In particular by implementing the integrated

financial management and information system (IFMIS), which ensures that funds are used for their intended purposes and that financial reports are produced on time.

In Tanzania, MTEF links the budget process to poverty reductions strategy and is aligned to performance budgeting since 1998. Under this framework, the cash management systems make quarterly allocations to identified priority sectors (Tax 2004). Kenya has also entrenched programme-based performance budgeting starting 2007/08 financial year. Performance budgeting will ensure that budgetary allocations are based on programmes that are linked to clearly specified objectives and targets such as the millennium development goals and Kenya's Vision 2030 (Republic of Kenya, 2006). This is being achieved through monitoring of development budgets of line ministries, coordinated development of result oriented budget performance benchmarks and identification and addressing areas of public resource leakages.

## **4. Conclusions and Recommendations**

### **4.1. Conclusions**

Countries have made progress in domesticating the comprehensive World Bank MTEF framework. With the exception of Botswana that follows a different budgeting framework, the framework followed by the other countries surveyed in this study is basically similar and takes into account all the tenets of the World Bank framework. The preparation of a comprehensive macroeconomic framework as a pre-requisite activity in budgeting and the presentation of the budget before parliament and its subsequent deliberation and approval is similar across countries. Nonetheless, the sequencing, intensity and time allocated to other activities differ from country to country.

A major achievement of the MTEF is in relation to linking policies, planning and budgeting. Countries have since the implementation of MTEF been able to allocate resources more efficiently as more resources are being spent on priority areas, especially in relation to poverty reduction. Secondly, MTEF provides a framework for identification of priorities and preparation of the budget through a consultative process. This has greatly improved transparency and accountability particularly with regard to sectoral and inter-regional resource allocations. Thirdly, the preparations of the various medium-term policy documents that accompany the preparation of the budget have enabled stakeholders to understand over a medium-term government priorities. This is important in attracting both local and international investors.

Achievements notwithstanding, the MTEF is faced with a number of challenges across countries. Firstly, countries still continue to register deviation of actual revenue and expenditure from planned levels as well as deviations of actual revenue from forecasts due to failure of ministries and government agencies to adhere to their spending limits. This is compounded by the lack of political commitment and

endorsement of difficult decisions involved in restructuring of expenditures; lack of understanding and commitment to difficult decision at sector/ministry level to budget decision and restraint from budget reallocations and inability of spending agencies to enforce expenditure controls to avoid over-expenditures and reallocation of funds during budget implementation. This has seen continued use of supplementary estimates across countries to bridge the gaps in expenditures.

Secondly, there is inadequate capacity. Though this is said to be more pronounced at the local government levels, the national level capacity is also in question. The inadequate capacity is manifested in the continued use of models that provides unrealistic forecasts; under spending by ministries and government agencies; unrealistic resource and capacity estimations of ministerial plans that over-estimate institutional capacities and under-estimate financial costs; and general implementation delays that have resulted in under spending. As a consequence of these challenges none of the countries surveyed has been able to fully realise the objectives of MTEF.

## 4.2. Recommendations

The achievements realised through the implementation of MTEF across countries are commendable. Nonetheless it is important to bring to the attention of all stakeholders the fact that budgeting is a process that needs to be constantly improved to incorporate changing economic, social and political demands. In this regard, to address the challenges highlighted above, the study makes the following recommendations:

*Enhance capacity:* Ministries and government agencies need to recruit high calibre employees; train and retain them. The inability of governments to retain staff has watered down its efforts to train. This is compounded by dependency on a few experts and frequent redeployments in the civil service. To retain staff, governments need to pay competitive salaries.

*Ensure political commitment and endorsement of difficult decisions involved in restructuring of expenditures:* Parliament has not utilised well its role in scrutinising and approving the budget to ensure both allocative and operational efficiency. Instead, parliament has captured this opportunity to pursue individualistic as opposed to collective interests. Establishment of a parliamentary budget office and therefore continued involvement of legislators in the budgetary process will go a long way in achieving political commitment in restructuring expenditures to achieve allocative efficiency

*Enforce expenditure controls to avoid over-expenditures and reallocation of funds during budget implementation.* Continued use of supplementary estimates undermines budget credibility. There is therefore need for commitment by all stakeholders to budget decision and restraint from budget reallocations. This can be

achieved by imposing more constraints on budget reallocations and approval of supplementary estimates.

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**Appendix – SEAPREN Publications as per 23 October 2008**

<b>Publication ID</b>	<b>Title</b>	<b>Authors</b>	<b>No. of Pages</b>	<b>Year Published</b>
SEAP11	Growth and Poverty focus of the PRSPs in HIPC Countries: the Case of Tanzania, Uganda and Zambia	Thomson Kalinda		2008
SEAP10	Effects of Economic Growth on Poverty Reduction: Experiences from Botswana, Kenya and Namibia	Lineth N.Oyugi	23	2008
SEAP9	Development of Budget Systems and Practices in sub-Saharan Africa	Oswald Mashindano		2008
SEAP8	Budget Processes and Transparency in Southern and Eastern African Countries	Charity K. Kerapeletswe Rehabeam Shilimela	43	2008
SEAP7	Experiences with Medium-Term Expenditure Frameworks in Selected Southern and Eastern African Countries	Lineth N.Oyugi	18	2008
SEAP6	Access to Financial Services and Poverty Reduction in Rural Kenya	John M. Mutua, Lineth N. Oyugi	37	2006
SEAP5	Poverty Alleviation in Rural Namibia through Improved Access to Financial Services	Jonathan Andongo, Mariama Deen-Swarray	42	2006
SEAP4	The Budgetary Process and Economic Governance in Namibia: Literature Review	Rehabeam Shilimela, Erwin Naimhwaka	32	2005
SEAP3	The Budgetary Process and Economic Governance in Zambia: Literature Review	Dale Mudenda, Manenga Ndulo, Mukata Wamulume	42	2005
SEAP2	The Budgetary Process and Economic Governance in Kenya: Literature Review	Lineth Nyaboke Oyugi	26	2005
SEAP1	The Budgetary Process and Economic Governance in Southern and Eastern Africa: Literature Review	Odd-Helge Fjeldstad, Dirk Hansohm, Jan Isaksen Erwin Naimhwaka	44	2004