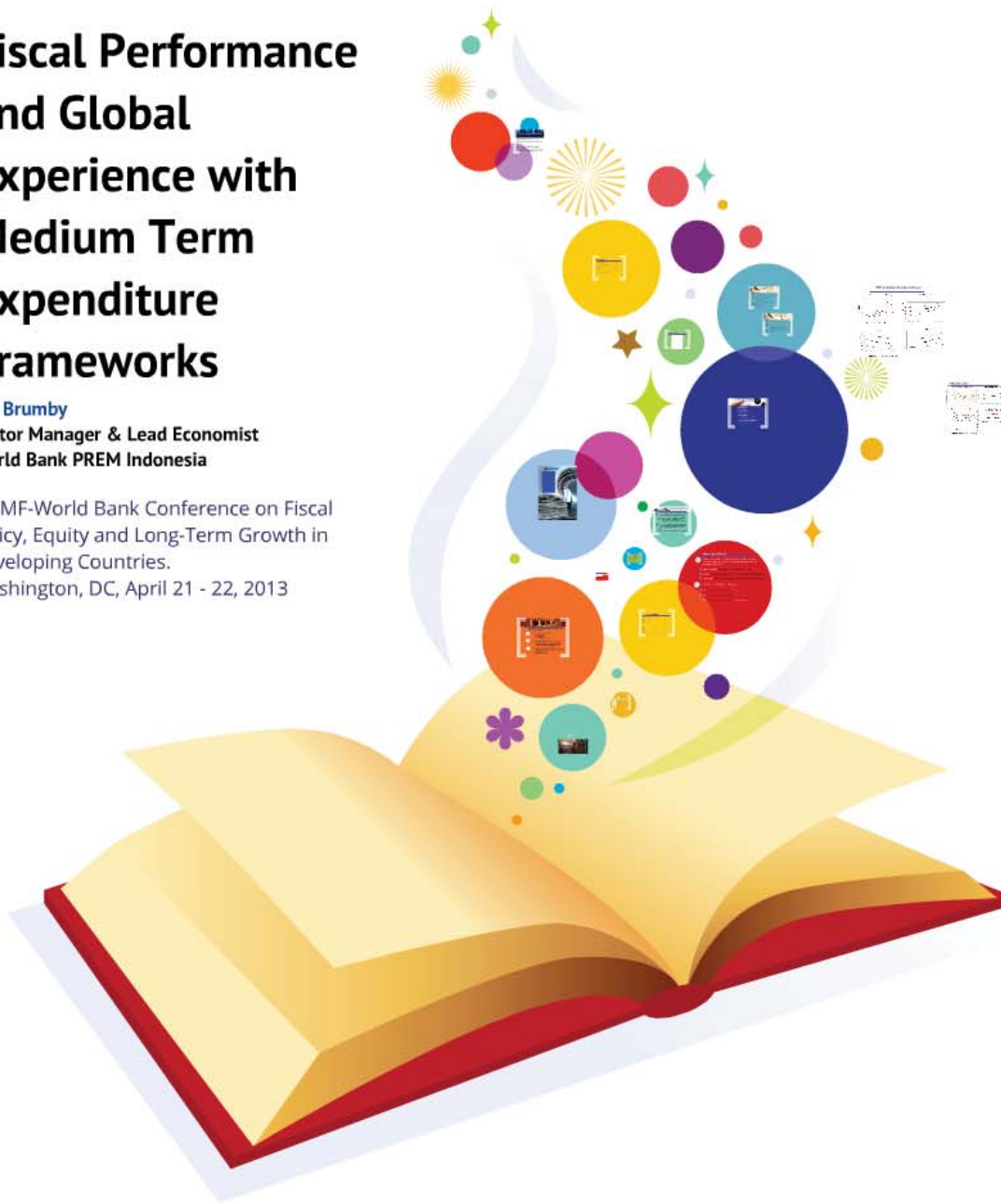


Fiscal Performance and Global Experience with Medium Term Expenditure Frameworks

Jim Brumby

**Sector Manager & Lead Economist
World Bank PREM Indonesia**

At IMF-World Bank Conference on Fiscal
Policy, Equity and Long-Term Growth in
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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



Questions...

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=MTEF
 - 2=MTBF
 - 3=MTEPF
- Identify new MTEFs by stages, transitions between stages, and (only a few) reversals
- Pilot MTBFs are recorded as MTEFs (but there is some analysis of pilots)
- Externally imposed multi-year fiscal frameworks (e.g., those underpinning IMF programs) are not recorded as MTEFs



What did we look for?



Fiscal discipline



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)

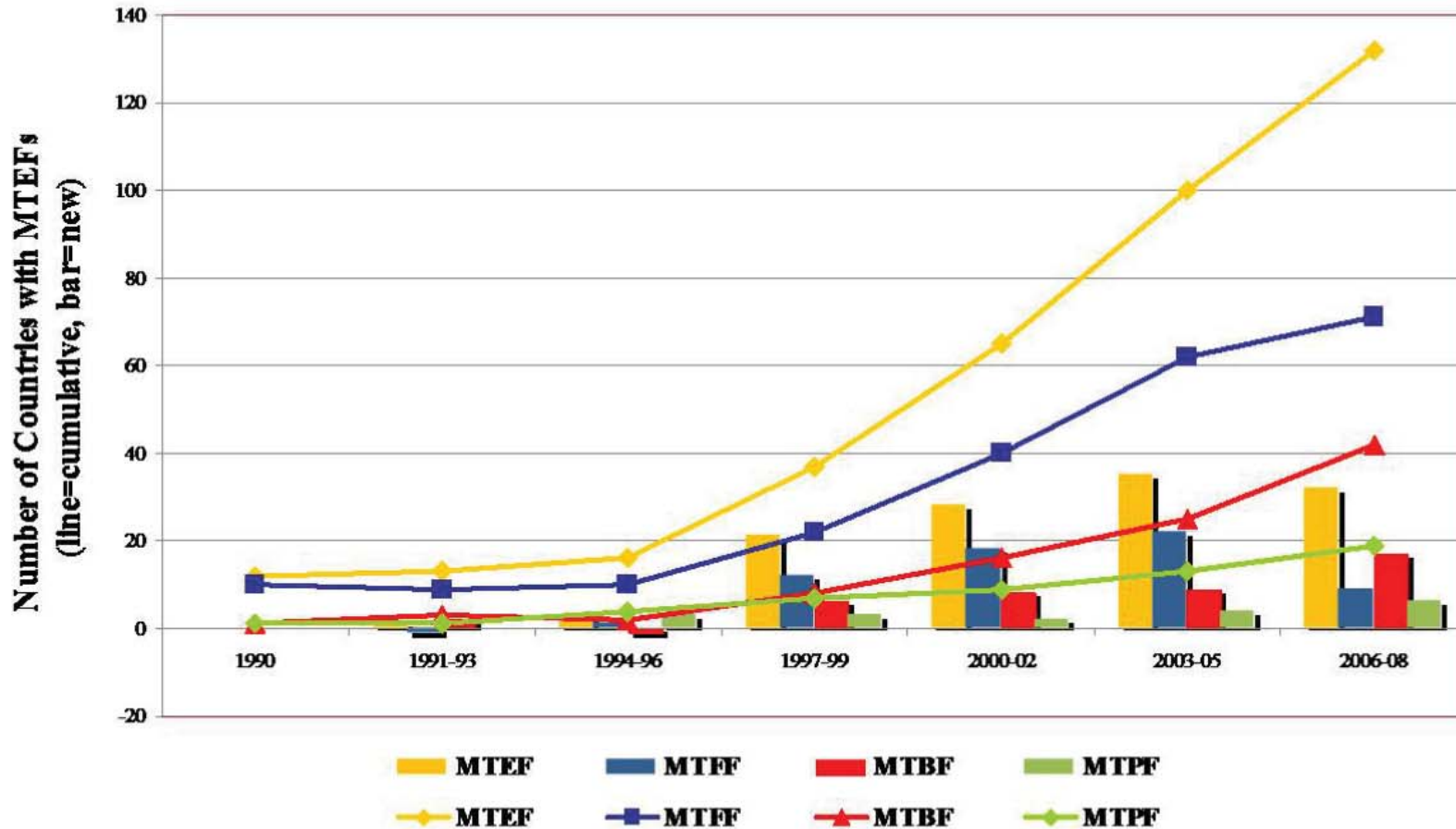


But data constraints are significant

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



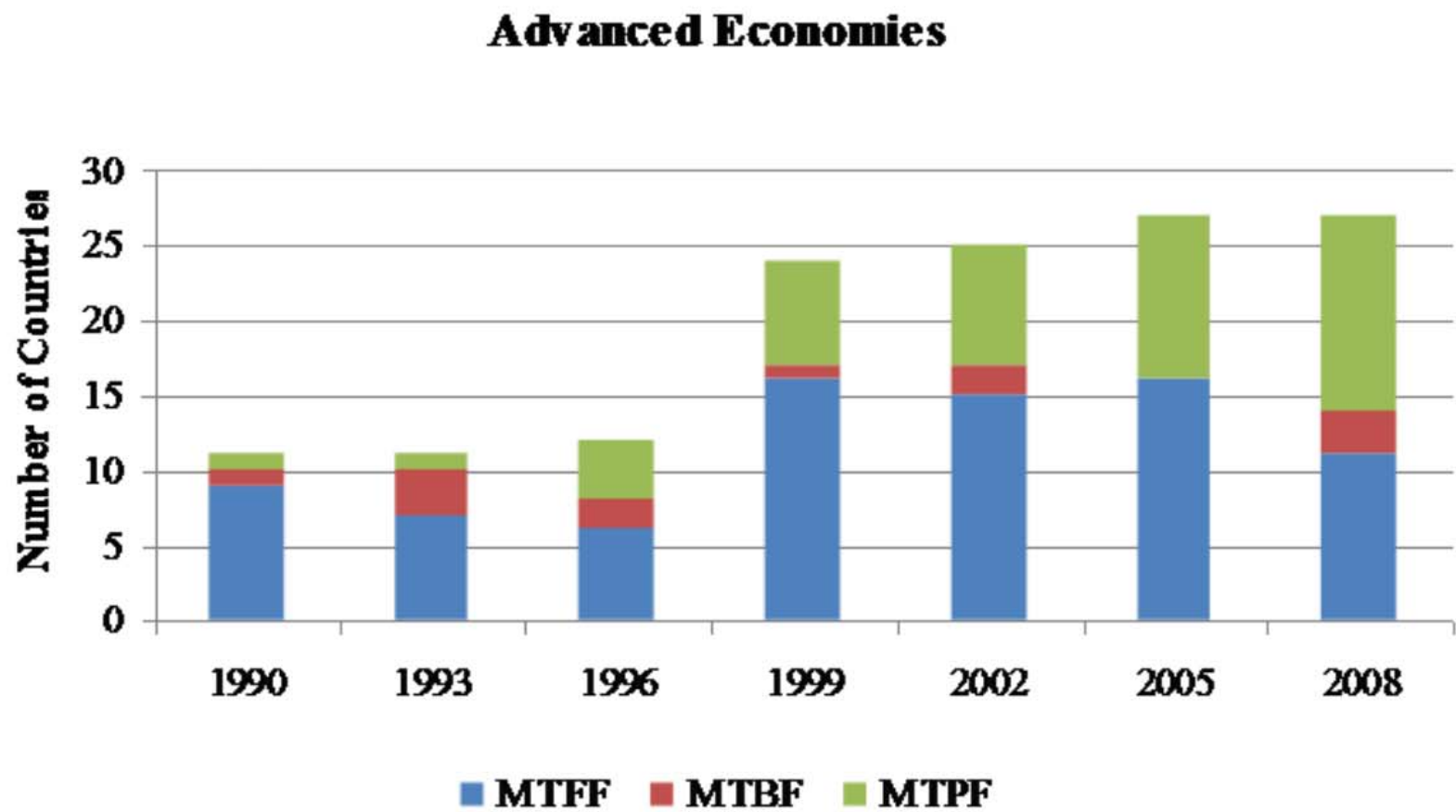
1990 11 MTEFs, 1 MTBF (Denmark), 1 MTPF (Australia)

2008 132 MTEFs, 71 MTFEs, 42 MTBFs and 19 MTPFs

THE MTEF State of World



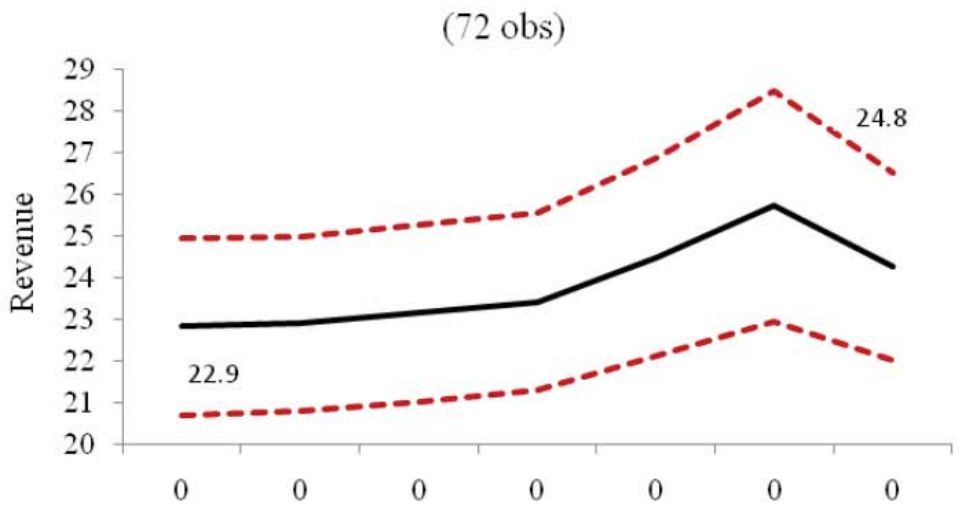
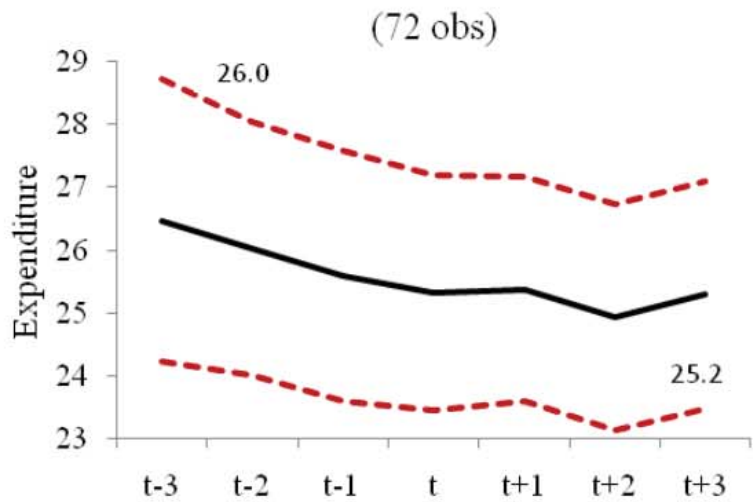
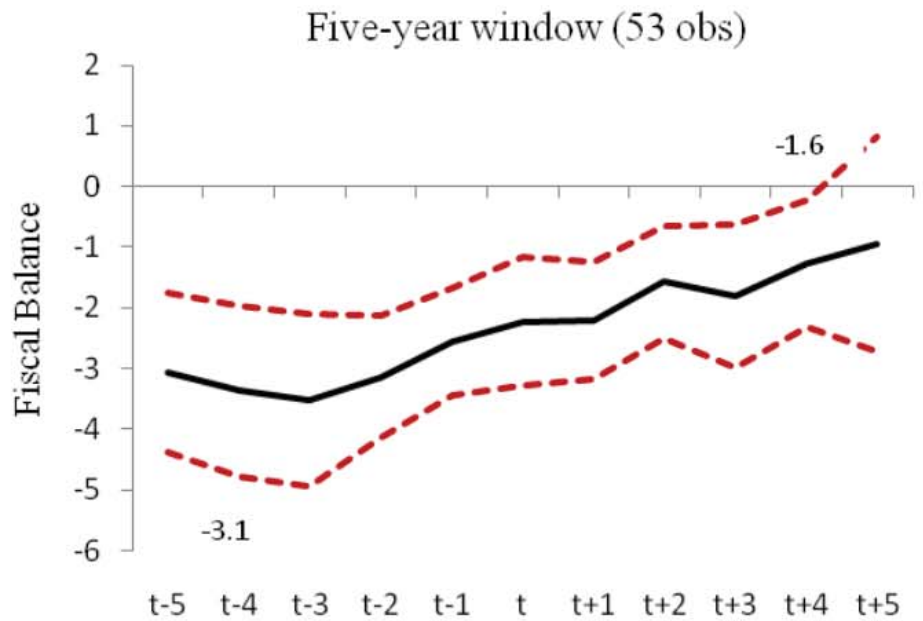
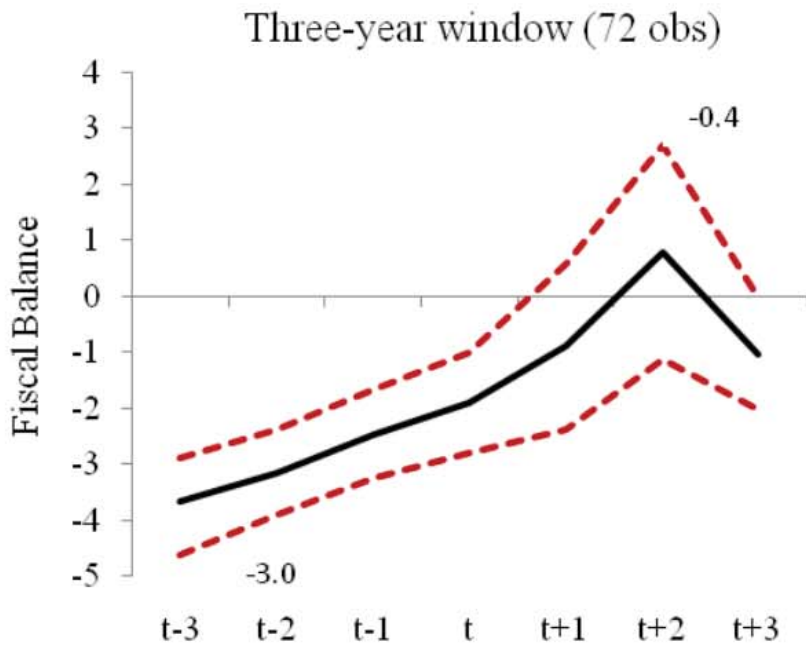
Transition path for advanced countries



THE MTEF State of World



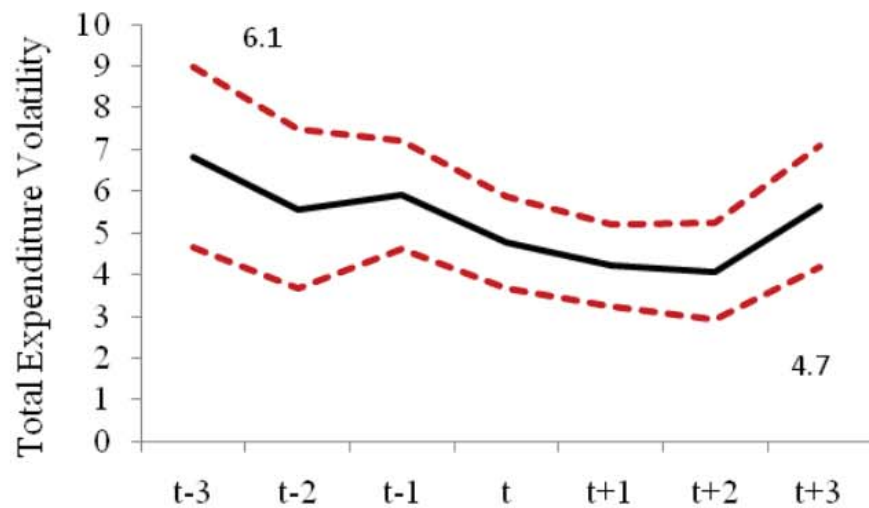
MTEFs, Fiscal Balance, Expenditure and Revenue



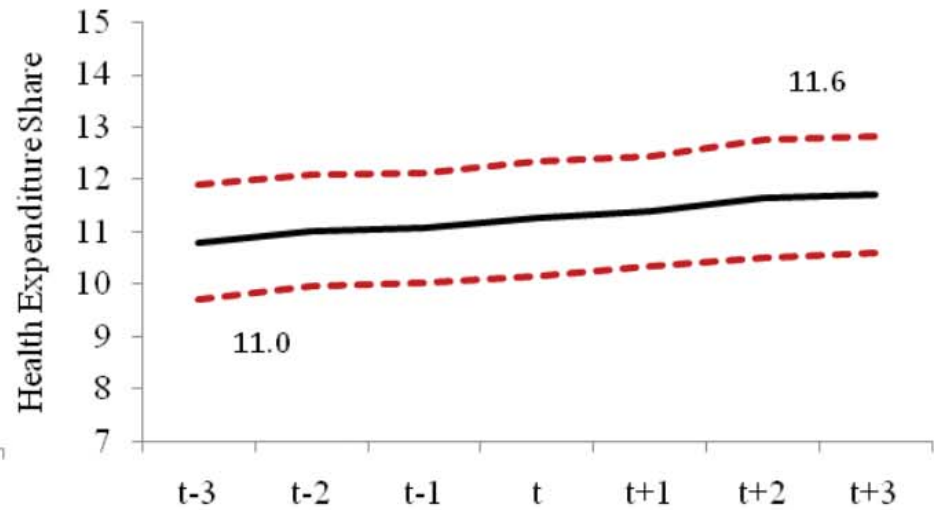
— mtef - - - 95% conf. interval

MTEFs and Efficiency

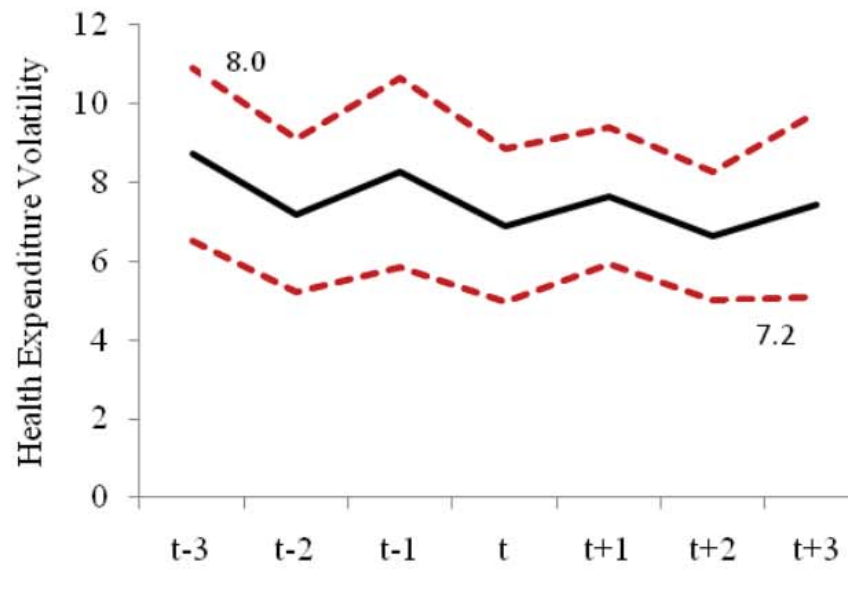
Total expenditure volatility (72 obs)



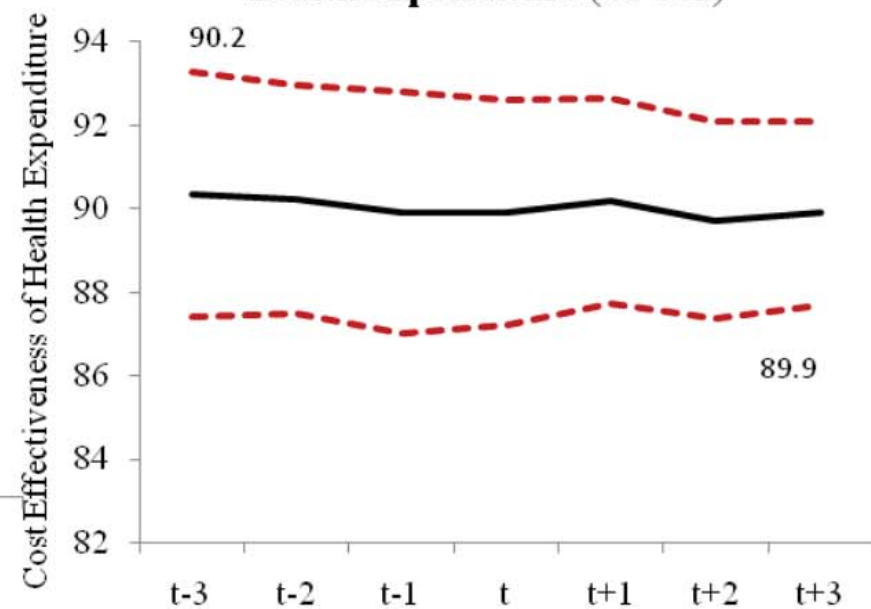
Health expenditure share (72 obs)



Health expenditure volatility (67 obs)



Cost effectiveness of health expenditure (41 obs)



— mtef - - - 95% conf. interval - - -



Econometric Analysis & Results - Approach

Fiscal performance = f (MTEF status, control variables)

- Control variables derived from empirical literature on determinants of fiscal performance

Serious econometric issues have to be addressed

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

Response: Instrumental variables

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

Response: Country and time fixed effects

Conditioning variables influence the link between MTEF and fiscal balances

- Separate regressions for MTEF, MTEF and MTEF 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 MTFE 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 MTFE to MTBF to MTPF (except MTPFs have no additional effect on health expenditure volatility)
- Marginal effect of MTBF over MTFE 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

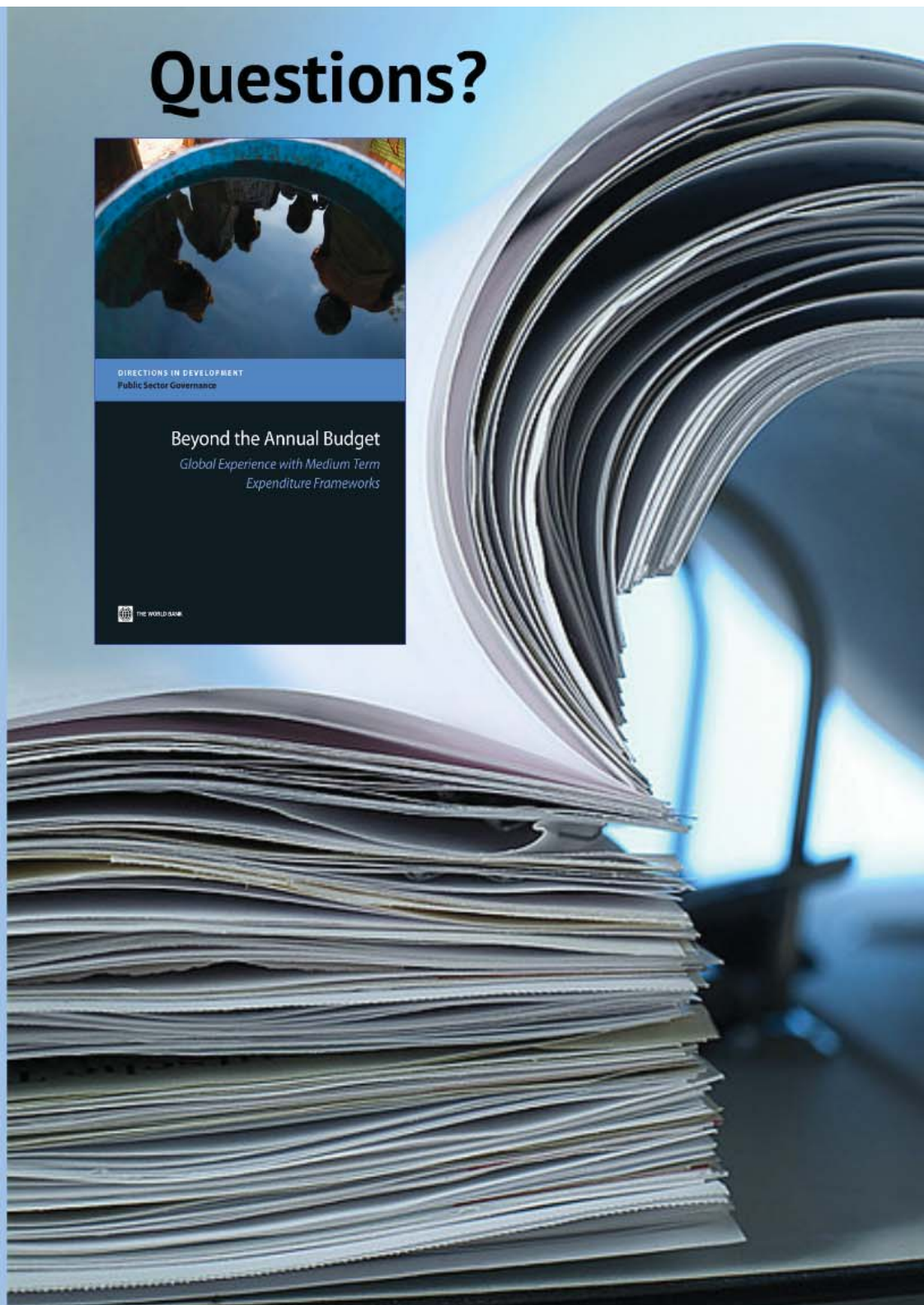
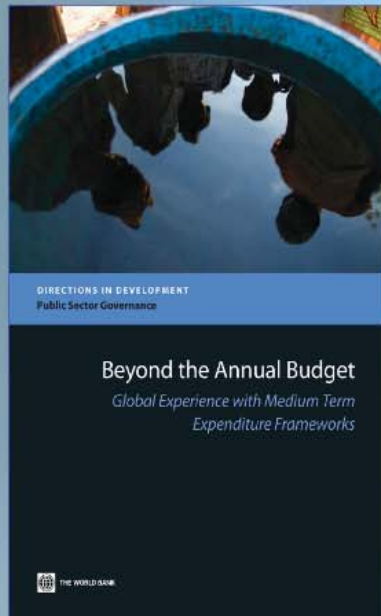


Review of Bank experience and case studies can throw new light on these requirements



Implications for Bank Work...

Questions?





DIRECTIONS IN DEVELOPMENT
Public Sector Governance

Beyond the Annual Budget

*Global Experience with Medium Term
Expenditure Frameworks*



THE WORLD BANK



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