

Conference on Fiscal Policy, Equity and Long-Term Growth in Developing
Countries
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Discussion notes for Session III
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The three high-level objectives of public expenditure management

- Aggregate fiscal discipline
 - Allocative efficiency
 - Technical efficiency

1. Both of the efforts reflected in these papers are important initiatives; both deserve applause
2. The Medium Term Expenditure Frameworks (MTEF) are about encouraging a longer-term horizons for expenditure and tax policy
3. An important step are the Medium Term Performance Frameworks (MTPF). These encourage the linking of funding to actual results.
4. MTEF's and MTPF's are expected to a) reduce over-spending, b) facilitate countercyclical spending, c) reduce volatility, and d) encourage greater technical and allocative efficiency

Empirical Results:

1. Stronger results on impact of MTEF on fiscal discipline, measured by the fiscal balance (causality)
2. Allocative Efficiency measured by Volatility in Total Expenditures
3. Technical Efficiency measured by cost-effectiveness of health expenditures

- The paper by Elva Bova, Nathalie Carcenac and Martine Guerguil documents the recent and interesting spread of fiscal rules in emerging market and developing countries

- Interesting result is that among developing countries , pro-cyclical policy remained even after introduction of a fiscal rule; The fiscal rule did not reduce pro-cyclicality

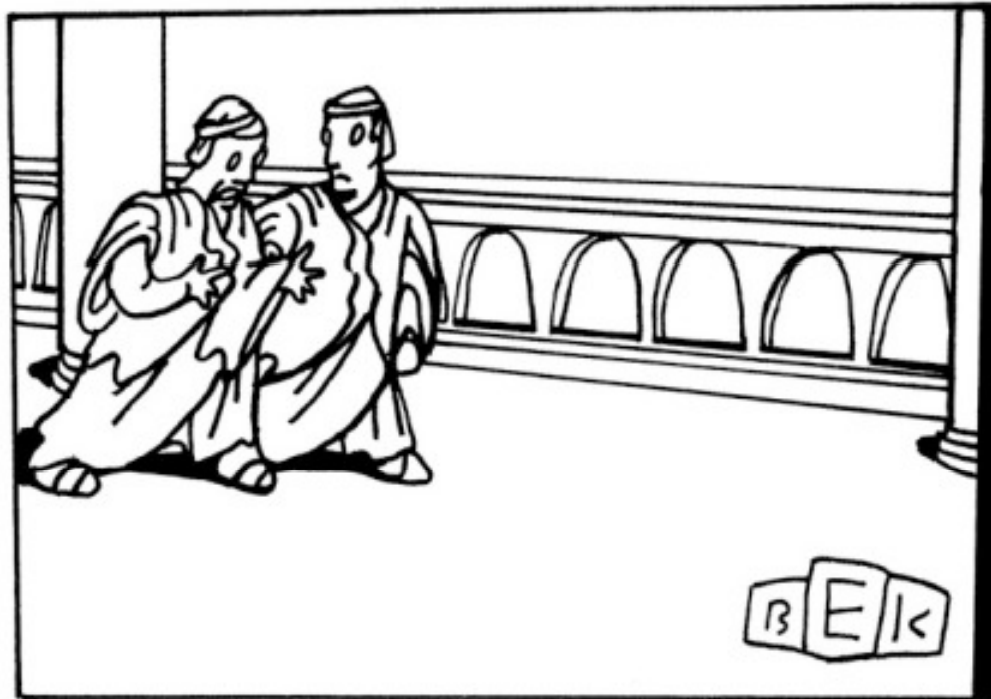
1. Fiscal Policy is made in an advocacy-dominated culture. If it isn't advocacy from political factions, its advocacy from self-interested ministries, and more recently from civil society pressure groups.
2. Some of these groups are well meaning and legitimate; others are not. Good government requires having a way to discriminate between the two.
3. One major tool of advocacy is selective presentation of facts and evidence.
4. Governments have a legitimate mandate to counteract the distortion of information.

Sound Expenditure Policy is about promoting medium term expenditure frameworks and about appropriate fiscal rules, but it is also about having the correct information.

Good Decisions require good information.
Specifically, Governments need to:

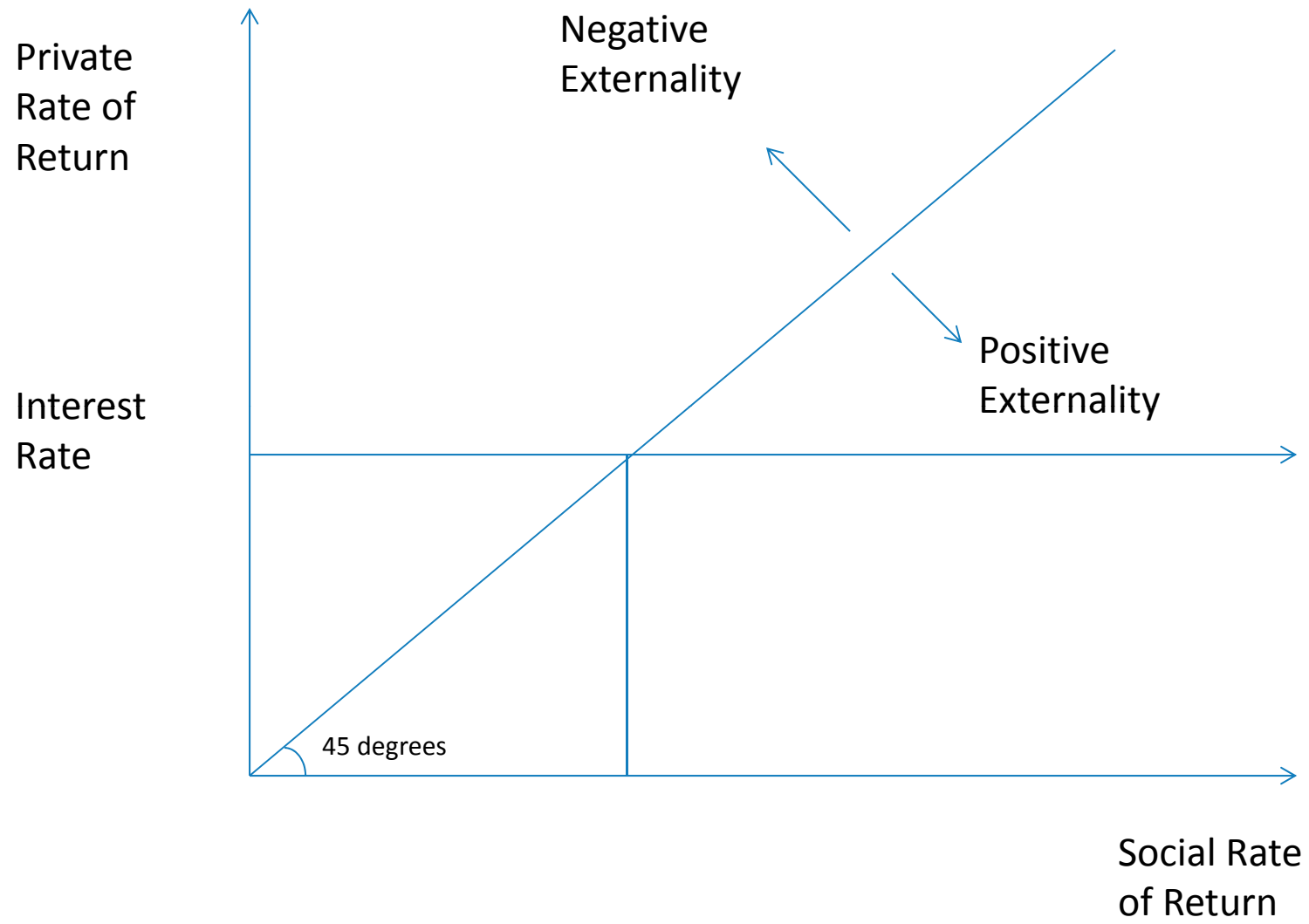
- 1. Collect the right information**
- 2. Safeguard objectivity**
- 3. Act on it**

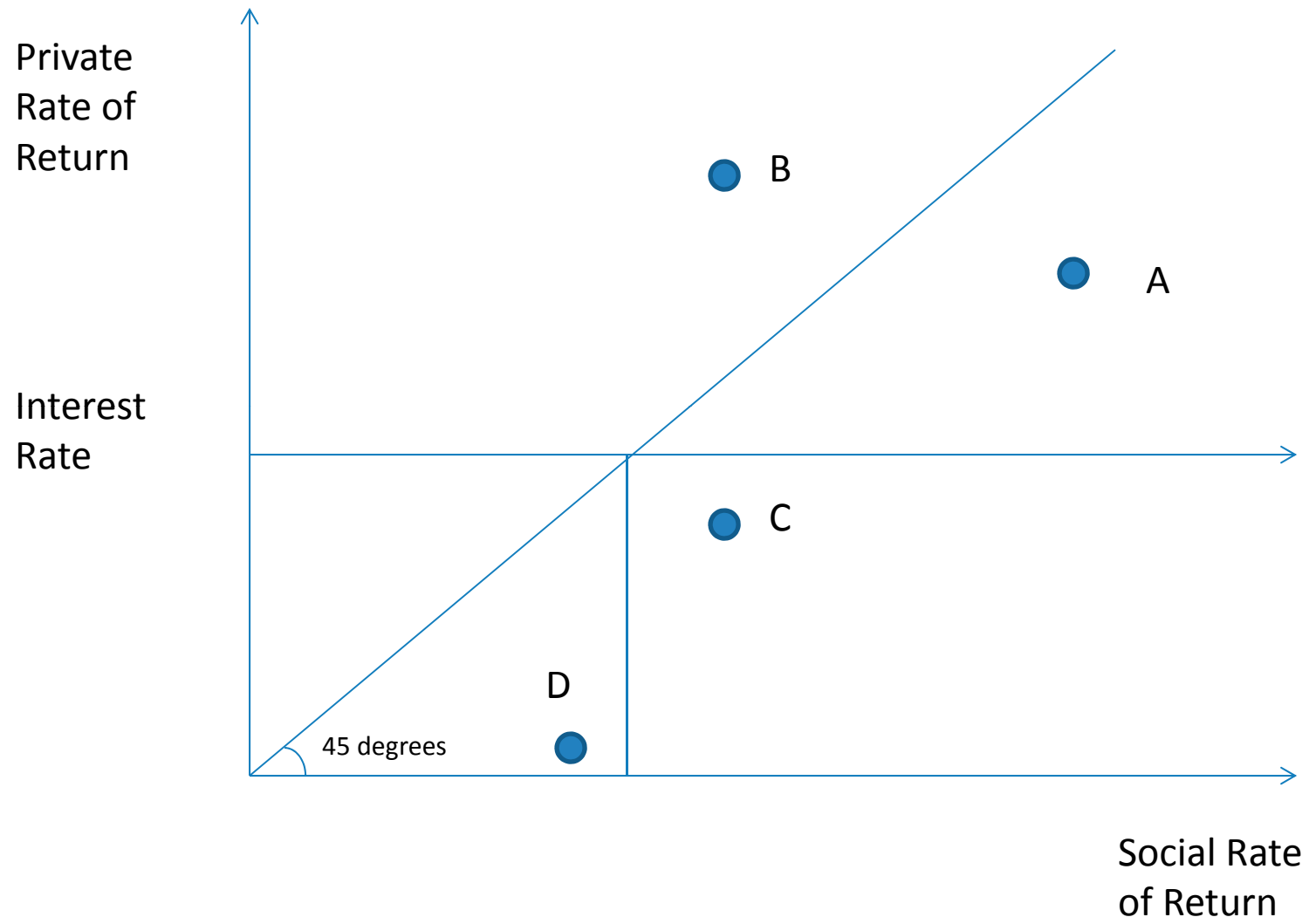
“My contractor told me Rome would only take a day”



“My contractor told me Rome would only take a day.”

But what is the right information and
where is the framework to organize
that information?





Fiscal Rules

- Governments should always act to correct externalities – **not necessarily**
- Governments should invest in the highest social return projects – **not necessarily**
- Governments should invest when the gap between the social and the private return is highest – **not necessarily**
- Governments should act only when the private sector will not – **not necessarily**

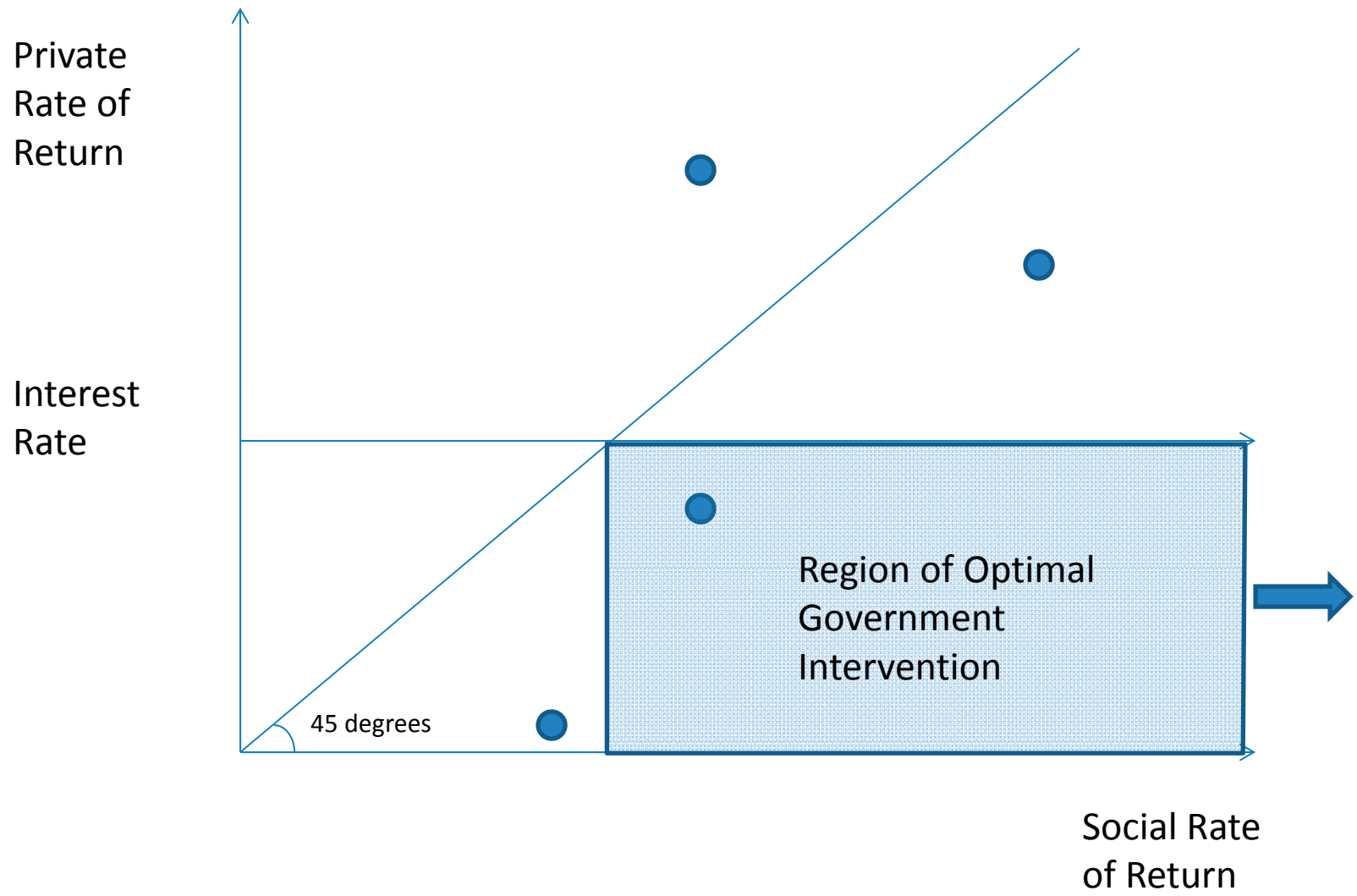


FIGURE 7.1 Median ERRs, All World Bank Projects, 1972-2008 (percent)

