



**Public Finance Management Workshop
Medium Term Expenditure Framework (MTEF) – Mt. Kenya
Date: 8th – 9th August, 2019 Venue: White Rhino Hotel,
Nyeri
Presentation by:**

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Presentation agenda



- ☐ Introduction to MTEF
- ☐ Objectives of MTEF
- ☐ Key components of MTEF
- ☐ MTEF process
- ☐ Role of MTEF in Improvement of Fiscal Management
- ☐ Obstacles to MTEF
- ☐ How have we performed

Introduction to MTEF



- Medium Term Expenditure Framework is a modern ideal tool of budgeting that seeks to translate government policies and plans into an expenditure programme within a coherent multi-year macro framework
- It is mainly a three year rolling macroeconomic framework
- Forms a basis for setting National priorities and expenditure prioritization.

Introduction to MTEF



- A Public Expenditure Review of 1997 concluded that the public expenditure management was weak and thus concluded that the public sector was a constraint to overall economic growth.
- Adopted in October 1999 and used to prepare the budget for 2000/2001
- The review identified two significant weaknesses in public expenditure management-credibility of budget process and declining quality of public investments.

Objectives of MTEF



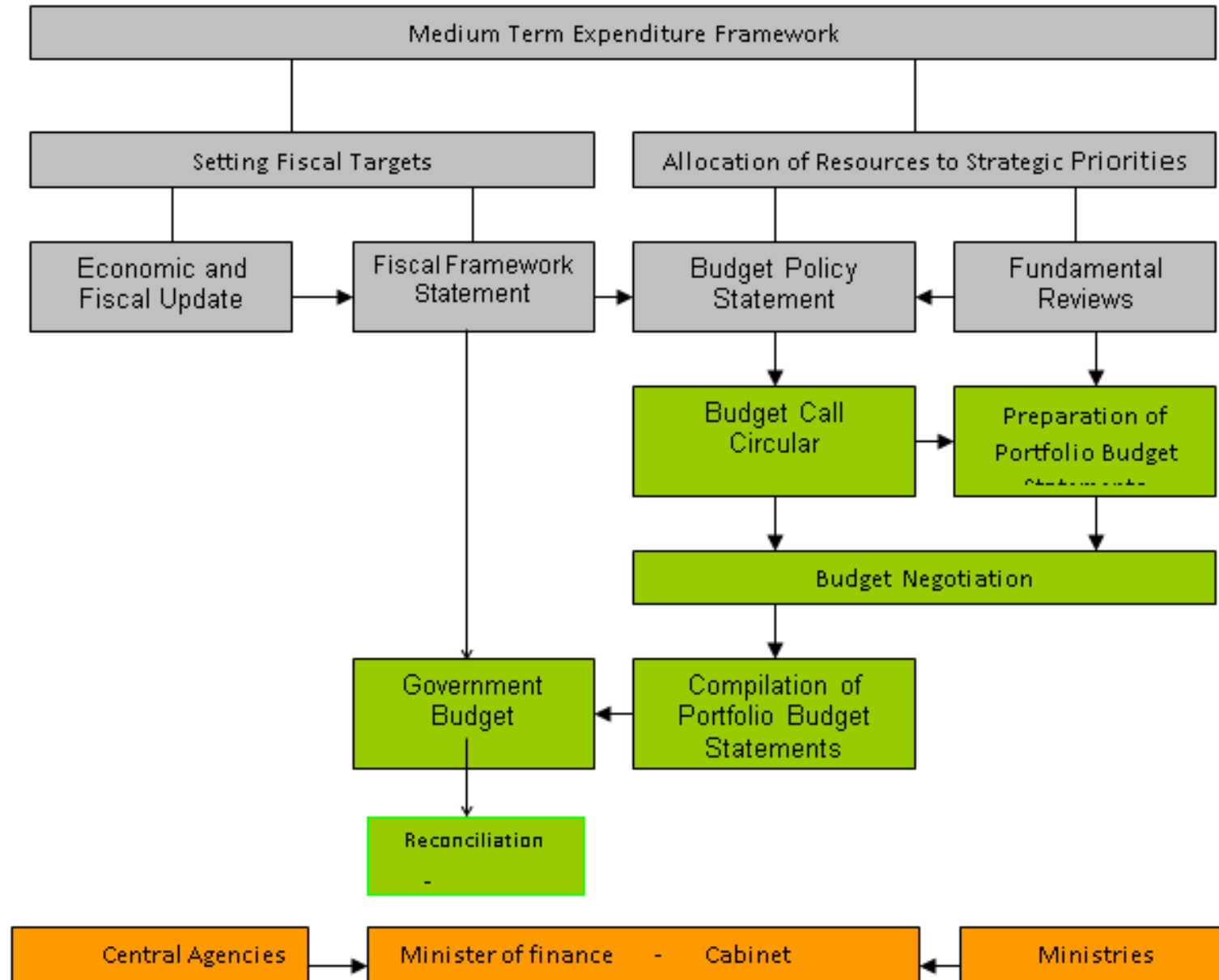
- Creating a macroeconomic environment suitable for local and foreign investors-supporting efficient production, efficient utilisation of public resources etc.
- Creating and sustaining fiscal discipline-through medium term rolling forecasting.
- Equitable resource allocation operational efficiency
- Provide continuity to the budget process.
- Key focus was to reduce public expenditure from 27% to about 25% of GDP
- To support vibrant growth of private sector.

Key components of MTEF



- Resource estimation/Macro targets
- Sectoral reviews/resource allocation
- Financial programming

MTEF process in Kenya



MTEF process in Kenya



Medium term expenditure framework

- **MTEF process**
- **The MTEF Budget Cycle(Kenyan Context)**

The introduction of the MTEF budget process in Kenya led to the creation of various work groups

- An MTEF secretariat was created to coordinate the budget programs
- A Macroeconomic Work Group (MWG) was created followed by the creation of eight Sectoral Work Groups (SWG)

What a sector working groups?



What are SWGs?

Departments/ministries clustered into sectors in line with COFOG, led by Accounting Officers

Purpose:

Agree on sector objectives, outputs and activities, including review and development of programmes, sub-programmes and their costing.

Prepare and submit a Sector Report, outlining prioritization of (costed) programmes and sub-programmes, expected outcomes, outputs and key performance indicators.

The CIDP/National development plan is used to guide this process.

What a sector working groups at National level



1. Agriculture and Rural Development (ARUD)
2. Energy, ICT and Infrastructure
3. General Economic and Commercial Affairs
4. Health
5. Education
6. Public Administration & International Relations
7. Social Protection, Culture and Recreation
8. Environmental Protection, Water and Natural Resources

Role of sector working group



SWGs are expected to ensure that proposed programmes and projects are in line with the objectives of Vision 2030 and its Medium Term Plan. Specifically, the terms of reference for SWGs will be to:

- Review sector objectives and strategies in line with the overall goals outlined in the Vision 2030;
- Identify the programmes and the necessary policy, legal and institutional reforms required;
- Analyze cost implications of the proposed programmes, projects and policies for the MTEF period;
- Prioritize Sector Programmes and allocate resources appropriately in accordance with an agreed criteria and justification for the prioritization;
- Identify programmes and projects to be funded under Public Private Partnerships (PPPs) ; and
- Coordinate activities leading to the development of sector reports and indicative Sector Budget proposals

MTEF process in Kenya



Medium term expenditure framework

- The various ministries and work groups were aligned to the (SWG's)
- 2. The MTEF budget is preceded by a National Development plan that spells out the broad macro economic policies
- 3. The Macro Economic Work group (MWG) prepares a medium term fiscal strategy that sets out
 - The optimal levels of aggregate revenue and expenditures
 - Financing deficits
- 4. The Treasury issues budget guidelines to the various accounting officers

MTEF process in Kenya



Medium term expenditure framework

- These guidelines include
 - The composition of the SWG's
 - The MTEF calendar
 - The fiscal strategy over the medium term
 - The sectoral resource ceilings
 - Other budget preparation information
- 2. This is meant for the ministries and government agencies to effectively participate in the budget process through their respective sectoral work groups
- 3. The SWG's prepare sector reviews and come up with reports outlining:

MTEF process in Kenya



Medium term expenditure framework

- Their overall missions, objectives and strategies in a prioritized format
- Then the sectoral ceilings are issued, These ceilings take to consideration the following factors
- The overall available resources
- The national objectives(often revolving around):
 - Economic growth
 - Poverty reduction
 - Historical resource allocation

MTEF process in Kenya



Medium term expenditure framework

- On-going project commitments
- Donor commitments
- Government contribution to Donor funded projects
- 4. Upon receipt of the SWG's proposals, the MTEF secretariat organises sectoral hearings where by the SWG's present their respective sector reports and receive comments from the public
- 5. This then enables the treasury to come up a medium term expenditure frame work to facilitate inter sectoral allocations
- 6. The sectoral resource ceilings are then confirmed and are presented to the cabinet for discussion

MTEF process in Kenya



Medium term expenditure framework

1. They are then forwarded to the ministries to prepare itemized budgets which are forwarded to treasury for consolidation and submission to parliament for approval through the traditional budget process
- When the sectoral ceilings are issued, they take to consideration the following factors
 - The overall available resources
 - The national objectives (often revolving around :
 - Economic growth
 - Poverty reduction
 - Historical resource allocation

Role of MTEF in Improvement of Fiscal Management



- Key component of MTEF that Improve Fiscal Management are: Increases Predictability of flow of resources, Promotes consultation in decision making on resource allocation, Promotes transparency and accountability, Promotes fiscal discipline.
- However MTEF is a major public expenditure management reform and hence like all reforms it creates losers and winners.

Obstacles to MTEF



- Ownership of the reform: MTEF moves power from the Ministries of Finance as the shift moves from item or input to output. In addition there is also the issue that most reforms are introduced because there is pressure from the development partners. The issue then arises of who is on the drivers seat and sustainability.
- Kenya just like many other countries chose to use an overlapping set of organizational structures to manage MTEF. Some of this have their own weaknesses and strengths
- Structure of the budget i.e. dual budgeting, use of traditional classification

Obstacles to MTEF



- ❑ Legal Framework: Traditionally the constitution gives the budget the legal backing but MTEF is not normally in that constitution countries that do not a budget act like Kenya have struggle to fix interpretation to back the new process
- ❑ An ideal MTEF is preceded by a comprehensive detailed diagnosis of budget management systems and process. Where Public Expenditure Reviews do not provide this diagnosis then the MTEF may not make any Impact

How have we performed?



- **Performance of MTEF in Kenya**
- Resource allocation and implementation is flawed by:
- Lack of a comprehensive development strategies that are based on realistic national resource constraints
- Excessive size of the government spending
- Failure to achieve aggregate fiscal discipline
- Poor quality of public expenditure
- Weaknesses in the planning and budgeting process that have contribute to its poor performance (these weaknesses include):

How have we performed?



Medium term expenditure framework

- Forecasting ability
- Lack of medium-term perspective;
- Failure to cost future resource requirements
- Too many supplementary budgets
- Excessive political interference in budgeting
- Failure of expenditure controls by line item
- Incremental recurrent budgeting especially on on-going programmes resulting in redundant and rising programme implementation costs;

How have we performed?



- Delays in issuing resources due to inadequate revenues..counties at the moment
- Emergencies and unplanned expenditures
- Inadequate provision of current costs from development costs
- Funding recurrent through development budget
- Discrepancies between development and public investment programmes
- Poor quality of development projects-high costs,not completed on time
- Inadequate M & E and accounting/IT systems

How have we performed?



- Its not all gloom. The future is bright. There are some positive changes:
- New public investment guidelines have been developed
- Introduction of new systems for m& e, accounting and public investment management (epromis)
- Renewed war on corruption

Interactive Session

