

# MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

Presentation by:

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# LEARNING OBJECTIVES



- ☐ Develop a common understanding of the concept of MTEF and rationale
- ☐ To explain the benefits of adopting the three year rolling budget (MTEF)
- ☐ To explain the institutional arrangements created to oversee the MTEF budgeting preparation and their different roles.
- ☐ To develop a clear appreciation that planning, policy and budgeting are linked in the MTEF process
- ☐ To set out the key 9 stages of the MTEF annual budgeting cycle

# MTEF Concept and Rationale



- ❑ MTEF budget is a 3 year rolling revenue and expenditure budget plans for the government both at the national and the county level
- ❑ The concept of the “three year rolling ” timeline consists of:
  - I. The current budget year (N) – the budget for the current year was finalized last year and is being implemented;
  - II. The next budget year (N+1), the target period of the current budget process i.e. the year the current budget process is being prepared for; and
  - III. The following two outer years (N + 2) and (N+3) – this are estimates of the likely expenditures to provide services beyond the next budget year

# Illustration



**N is the financial year we are currently in. This budget is currently being executed.**

**We are currently preparing our budget for the year 'N+1'. The expenditure figures in this budget will be based on known revenue allocations.**

**An MTEF is prepared for 2019/20 through to 2021/23.**

<b>N</b>	<b>N+1</b>	<b>N+2</b>	<b>N+3</b>
<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>

**The years N+2 and N+3 are known as the 'outer years'. These will contain indicative figures (known as 'forward estimates'), based on estimated revenue.**

# MTEF-Cont'



- ☐ The N+2 and N+3 are forward estimate of likely expenditure
- ☐ The expenditures are based on the programmes arising from intended policy outcomes
- ☐ Includes multi-year programmes that are spread from previous years and the next budget
- ☐ They are adjusted for inflation because of time horizon
- ☐ Due to uncertainty the estimates are likely to change

# MTEF-Cont'



- ❑ A 3-year rolling **planning** and **budgeting process** that aims at:
  - **Imposing discipline** in planning and management of national resources
  - **Integrating policy reform**, budgeting and expenditure management and
  - **Restoring credibility** in the planning and budgetary process.

# MTEF-Cont'



- ❑ It rests on three pillars:
  - i. The **top-down multiyear projections** of resource envelope
  - ii. The **bottom-up multiyear cost estimates** of sector programs
  - iii. **Reconciling** resources with priorities (trade-off)

# Objectives of MTEF budget approach

1. Link the annual budget to the long term **development policies, objectives and plans**
  - Before MTEF:
    - ✓ There was no clear mechanism to link policy-making, planning and budgeting in Kenya
    - ✓ Planning undertaken solely by the Ministry responsible for planning
    - ✓ Budgeting was the domain of the Ministry of Finance/Treasury
    - ✓ Minimal consultation between the two ministries with a view to harmonize the two processes – discrepancies emerged on what was being planned and what was being financed



# Objectives of MTEF budget approach

2. Improve macro-economic **growth targets** by developing consistent and **realistic resource envelopes**

Before MTEF:

- ✓ Tendency to overestimate revenues resulting to adjustments and revisions to the budget in the course of the year
- ✓ Performance of the budget was judged in terms of the size of the deficit –greater effort directed to balancing of the right size of the deficit than to processes that could lead to restructuring of the expenditure patterns and composition

# Objectives of MTEF budget approach



3. Improve the **allocation** of resources to **agreed strategic priorities** between and within sectors.

## Before MTEF:

- ☐ Tendency to spread resources thinly over too many projects and programmes
- ☐ Most of the projects/programmes not linked to the sector priorities or the national priorities leading upsurge of stalled projects “white elephant projects”, increase of pending bills, low funding to priority areas
- ☐ Overall budget objectives not achieved

# Objectives of MTEF budget approach

4. Generate commitment of MDAs to increase **predictability** in resource allocations for **spending agencies** to plan ahead

## **Before MTEF:**

- ☐ A lot of uncertainty with regard to the amount of budgetary allocations that a spending agency/ministry could get to support implementing projects/ programmes
- ☐ Spending agency not sure of the funds already allocated – frequent budget cuts due to austerity measures
- ☐ Difficult for agencies to plan/predict the future

# Objectives of MTEF budget approach



5. Provide incentive for more effective and efficient utilization of resources by MDAs

## Before MTEF:

- ❑ Frequent budget cuts discouraged adoption of effective budget management measures
- ❑ Inadequate mechanism to measure performance – MTEF seen as an attempt to introduce an incentive to utilize resources in the most efficient and effective manner

# Key principles of MTEF



## ☐ Achieve Fiscal discipline

- ✓ Availability of resources drives the expenditure decisions
- ✓ Resource allocation is efficient, effective and equitable

## ☐ Achieve allocative efficiency

- ✓ Resources allocated to agreed priorities

## ☐ Achieve predictability

- ✓ Through development of consistent and **realistic resource estimation**, projection, collection and disbursement

# The MTEF institutional Framework



- ❑ MTEF was introduced in 2000/01 as part of the Public Financial Management reforms
- ❑ It is an integral part of annual budget making process
- ❑ Key institutional arrangements for MTEF budgeting process include:
  - ✓ Macro Working Group
  - ✓ The Sector Working Group(SWGs)

# MTEF Institutions cont..



## The Macro Working Group:

- ☐ The National Treasury (M&FAD, BD, IGFRD, RMD&PDMO)
- ☐ Central Bank of Kenya
- ☐ Kenya National Bureau of Statistics
- ☐ State Department of planning (Macro Dept)
- ☐ KIPPRA
- ☐ KRA
- ☐ CRA

# Macro Working Group-Cont'



## **Macro- Working Group is charged with:**

- ☐ Develop medium-term Fiscal framework and resource envelope;
- ☐ Review and determination of National government entities priorities
- ☐ Develop resource envelope proposals for sectors,parliament,judiciary and counties
- ☐ Draft budget review and outlook paper(BROP)



# Sector Working Groups-SWGs



- ❑ MDAs are organized into sectors within the context of UN-classification of the functions of Government(COFOG).
- ❑ The classification allows sector wide approach to planning and budgeting as well international comparison and services across countries.

# The Mapped 10 Sectors – Treasury Circular



<input type="checkbox"/> Agriculture, Rural and Urban Development;	<input type="checkbox"/> Governance, Justice, Law and Order
<input type="checkbox"/> Energy Infrastructure and ICT;	<input type="checkbox"/> Public Administration and International Relations;
<input type="checkbox"/> General Economic and Commercial Affairs;	<input type="checkbox"/> National Security
<input type="checkbox"/> Health	<input type="checkbox"/> Social Protection, Culture and Recreation; and
<input type="checkbox"/> Education	<input type="checkbox"/> Environmental Protection, Water and Natural Resources

# Structure & Composition of SWGs



- ☐ Chairperson-One Accounting Officer chosen by Consensus by other Accounting Officers within the sector.
- ☐ Sector convenor-Appointed by National Treasury
- ☐ Sector Co-Convenor –Appointed by the state department of planning
- ☐ Technical working group –appointed by sector working group
- ☐ A SWG Secretariat
- ☐ Representative from Development partners
- ☐ Representative from the Private sector

# Role Of SWGs



- ☐ Review sector objectives and Strategies in line with the overall goals outlined, i.e in Vision 2030,MTP III and the “Big four” Agenda
- ☐ Identify the programmes and the necessary policy ,legal and institutional reforms required
- ☐ Aprrove list projects to be included and funded
- ☐ Anaylze cost implications of the proposed programmes,projects and policies for MTEF period
- ☐ Prioritize sector programmes and allocate resources appropriately in accordance with an agreed criteria and prioritization

# Role Of SWGs - Cont'



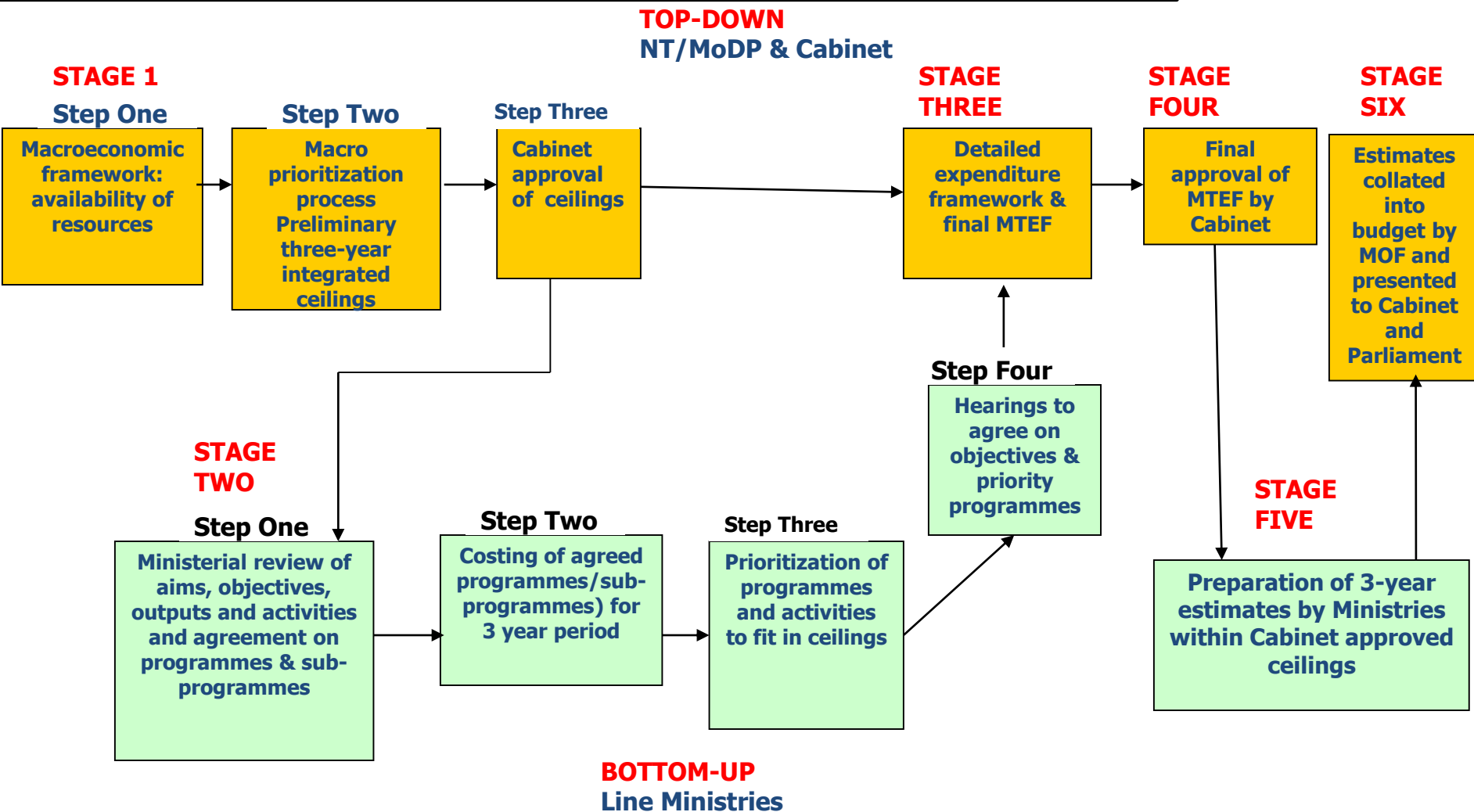
- ☐ Identify programmes and projects to be funded by PPP
- ☐ Allocate resources only to projects that have been fully processed, i.e Feasibility study done, with detailed designs, necessary approvals and land secured.
- ☐ Provide a detailed explanation for the rescheduling of projects which should include savings and financial implications
- ☐ Coordinate activities leading to the development of sector reports and indicative sector budget proposals.

# The key stages of the MTEF cycle



1. Establish the resource envelope and expenditure targets
2. Sectoral reviews
3. Developing preliminary sectoral ceilings
4. Estimation of each sector requirements for the medium term
5. Sharing of sectoral resource allocations
6. Revisiting sector ceilings
7. Finalizing three year estimates
8. Review and finalization of the estimates
9. Public hearings

# The key stages of the MTEF cycle



# Challenges facing the MTEF budgeting process



- ☐ Tendency to overestimate economic growth and resources available in the forecast period
- ☐ Tendency for agencies to view their forecasted expenditures as an entitlement
- ☐ Measurable items are more important than non-measurable
- ☐ Rewarding the best presenters
- ☐ Lack of objectivity



# Challenges facing the MTEF budgeting process - Cont'



- ☐ Having more focus in the first year while paying less attention to the outer years
- ☐ Is seen as separate to budget process and largely a technical exercise developed by National Treasury
- ☐ Use of line-item budgeting and therefore making it difficult to use the MTEF effectively for policy prioritization
- ☐ Outer years seen as unimportant and not relevant to the budget process
- ☐ Budget process not yet sufficiently transparent

# Challenges facing the MTEF budgeting process - Cont'



- ❑ The Budget structure still input based, little emphasis on performance measurement
- ❑ Incremental budgeting still used as basis for budget formulation