Module 1: Overview and Context of Education Policies

2.3 The linkages between policy, planning and budgeting

This reading material is reproduced for training purpose based on Education MTEF: Approaches, Experience and Lessons from Nine Countries in Asia

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Ensuring stronger linkages and better alignment between education policy and budgeting through MTEF

Reasons for the introduction of MTEF

During the 1990s a new public management paradigm emerged, which emphasized the quality and not just the quantity of public spending. This was a reaction to the long period of economic growth after World War II and the gradual growth of ‘big government’, and in some countries, very large government fiscal deficits. It was recognized in the aftermath of the two oil price shocks in the 1970s and especially the recession of 1979-1982 that government spending could not continue to grow as an ever rising share of GDP, and that action needed to be taken in many developed and developing countries to make public finances more sustainable. It was also understood that it was no longer possible to run large budget deficits which would lead to currency depreciation and rising inflation. These circumstances inevitably meant that a greater focus had to be made on promoting efficiency and effectiveness of existing public spending, and financing new programmes by making savings in existing programmes.

At the same time there was also a growing recognition that there was a substantial disconnect between the longer-term objectives of national economic and sector planning and the realities of constrained annual budgets. Policy makers became more concerned to link planning to the public finance cycle and develop effective systems of performance monitoring and measurement, which would support a more transparent and rational allocation of resources both within and between the different sectors. MTEF was part of that public policy response.

In the developing countries, a second paradigm change occurred in the way financial and technical aid was given. In the late 1990s it became obvious that less developed countries whose governments already had weak institutional capacities, could not cope with the demands of a large number of donors whose operational procedures and reporting and accountability requirements differed widely. This has led to a growing process of aid harmonization, driven by the adoption of the OECD Guidelines on Aid Effectiveness.2 In a growing number of aid recipient countries, the government and development partners have adopted a sector wide approach (SWAp) which has involved donors trying to harmonize their aid initiatives behind one single agreed development plan. Many donors have contributed their funding direct to the government budget as budget support. A key criterion for allocating programme funds in this way has been the presence of a credible MTEF. Thus the SWAp has also been instrumental in driving the acceptance of the MTEF approach.

How it works?

The overall objective of the MTEF approach is to improve the quality and relevance of spending, by allocating resources to areas of greatest potential benefit and by introducing a rigorous evaluation of those actual and potential benefits. It does this by bringing together three concepts which have their origins in earlier public management initiatives.

The first concept is introducing a more rigorous cost analysis of government expenditure to establish the baseline budget. This involves understanding the cost structure and drivers in the government’s budget and, in particular, how expenditure moves in relation to demographic, economic and societal
changes. It also requires estimating the current and future costs of existing government policy commitments, which will influence the baseline budget, and making accurate and realistic calculations of new policies and projects. The second concept is that of policy performance monitoring and evaluation, understanding what has and has not worked and what needs to be achieved. This involves a system of performance measurement, the definition of clear objectives, meaningful indicators and targets to measure progress against those objectives and a rigorous process of follow-up and review. The third concept is that of identifying and forecasting the amount of resources that would be available to implement new policies and programmes. This is sometimes referred to as the “fiscal space” or the amount of resources within the budget that can be reallocated to new programmes. Fiscal space is created on the one hand through economic growth, which increases revenues, and on the other by shifting resources from existing programmes that are not effective, which reduces expenditure. This allows adequate and reliable funding to be reallocated to implement new initiatives.

As the case studies show, the successful implementation of MTEFs in the education sector (and indeed in other sectors) has been patchy. Where the process has strong political commitment and effective organizational leadership, and builds on a strong annual budgeting and resource allocation framework, progress can and has been good. Unsurprisingly, it is the developed countries in the region (Republic of Korea and Singapore) that have implemented MTEF most strategically and to the best effect. However, the case studies of Nepal and Viet Nam also show that important improvements have been made in developing countries, and that all the countries can achieve better results if strong political engagement, high technical capacity and good financial systems are in place.

If the benefits of MTEFs are to be realized in education as they have been proven thus far, ministries of education need to engage MTEF on a political level: policy prioritization is fundamentally a political process informed by economics, not the other way round. They need to engage with it on an organizational level: they need to work on expanding their effective degree of influence. They also need to work in co-operation rather than competition with ministries of finance. Finally, they need to invest in technical capacity in terms of staff numbers, quality and training, and as a first priority work on strengthening the ministry’s involvement in the annual budgeting process including adequate resource provision for their own finance and planning departments.