

IDSJ Working Paper 162

Medium Term Expenditure Framework

Lessons for Water Sector in Rajasthan

**Surjit Singh
Praveen Jha
K.N. Joshi**

December 2012

The purpose of the Working Paper is to provide an opportunity to IDSJ faculty, visiting faculty, and research staff to sound out their ideas and research work before publication and to get feedback and comments. They can be cited or quoted only with full acknowledgment and bearing in mind that they are being circulated in preliminary form to encourage discussion and comments before publication.

December 2012

Institute of Development Studies

8-B, Jhalana Institutional Area

Jaipur-302 004 (India)

Phone : 91-141-2705726 / 2706457 / 2705348

Fax : : 91-141-2705348

E-Mail : idsj@dataone.in

visit us at : www.idsj.org

Printed at : Kumar & Company, Jaipur
Ph. : 2375909

Medium Term Expenditure Framework

Lessons for Water Sector in Rajasthan

Surjit Singh

Praveen Jha

K.N. Joshi

This paper looks at the issues involved in medium term expenditure framework at the international level. The experience of African countries and selected developed countries is analyzed. Finally, the paper draws lessons for water sector in case of Rajasthan.

1.0 A Background

As is well-known, assessing impacts of any kind of public investment is complicated because many factors influence the relationship between public spending and the expected outputs/outcomes. These factors act in a complex and sometimes contradictory way to each other: such as the time lag between the investments made and the benefits reaped, difficult to establish one-to-one causal relationship between exogenous and endogenous variables etc. Although, public investment on rural/ urban infrastructure, particularly on water sector, carry relatively huge capital outlays, which takes a gestation period for returns to show up. However, there is overwhelming evidence to support the view that there exists a high degree of positive correlation between increased public expenditure towards water sector and poverty reduction (particularly in rural areas), and researchers have established the fact that efficient use of public resources with clear policy linkages could be beneficial both in short and long run. Similarly, it has also been argued that public spending through budgets has been one of the most direct and effective instruments that governments can use to promote sustainable, inclusive and equitable growth with substantial reduction in absolute and relative poverty, particularly in the third world. In other words, public policies favouring increased budgetary investments towards components of rural development and especially, towards water sector, play a crucial role in shaping the overall growth of the economy while ensuring development parity across regions and users.

However, one of the most important issues in economic analysis in general, and analysis of public policies in particular, has to do with the 'appropriate' allocation as well as utilization of such public resources. It is often argued, and justifiably so, that problems relating to efficiency in planning, budgeting, management and utilization of public resources have been major constraints in the domain of government interventions for development. In such a scenario, one of the central questions in the contemporary discourse on public policies in India and elsewhere, is how well do budget outlays translate into physical outputs/ services and ultimately lead to improvements in the development outcomes in various sectors. Further, reprioritization of budgets, favouring a particular sub-sector in an economy, could result in desired outcomes

within a selective period of time. Of course, availability of resources, resource absorption capacity of the sector, better planning and budgeting and finally linking desired outcomes with that of policy goals and objectives of the economy is crucial for overall development of the sector.

What is more crucial in this regard is to address the issues relating to poor efficiency, lack of transparency (especially in government apparatus) and weak budgetary management, which have been the core concerns among policy makers these days. It has also been argued that the single most proximate cause of poor budgeting outcomes, particularly in developing countries, as identified by the Public Expenditure Management Handbook (World Bank, 1998), is the failure to link policies, planning and budgeting. This view is also explicitly supported by the Oxford Policy Management (OPM), which has experienced similar problems in dealing with policy and budgetary issues in countries in South Asia and Sub-Saharan Africa (OPM Review, 2000). Along with the World Bank & OPM views, there is near consensus among several other multilateral funding agencies like the European Union (EU) and International Monetary Fund (IMF) etc., regarding this issue and they have been prescribing and fervently pushing for implementing "Medium Term Expenditure Framework (MTEF)", not only as a simple remedy, but also as a 'panacea' to this problem. Consequently, during the last couple of decades, the implementation of MTEF is increasingly being accepted as an appropriate policy response/ measure to the problem of the inadequacies of linking policies with planning and budgeting systems and also for the broader performance problems of government (OPM Review, 2000).

As pointed out in the foregoing for prudent management of limited public resources i.e. linking planning and public policies, appropriate budgetary provisions, efficient use of public resources in producing desired results, adhering to appropriate methods for spending public money etc., MTEF has become an indispensable tool before the public authorities and also gained momentum in recent years. The MTEF as a tool also encourages cooperation across Ministries and planning over a longer horizon than the upcoming fiscal year. In the budget documents of several nation states, MTEF refers to the targeted expenditures for the present financial year and the two (minimum) following financial years for various macroeconomic variables. Naturally, this holistic approach is preferable to piecemeal, reactive, short- term decisions that ordinarily characterize budgeting in many countries including India. Although, in India, in the MTE Framework, the annual budget includes three year spending plans (for few components of expenditure, notably a portion of the plan expenditure), only the single upcoming fiscal year is voted on by the Parliament each year.

Apparently, MTEF has several positive features, viz.:

- (i) *Enhances Stability*: The MTEF enhances stability by letting provinces and national ministries know exactly what amount of financial resources will likely be available to them in the next three years. These spending projections certainly could serve as a starting point for planning the next year's detailed budget and this would definitely allow government planning to be more credible and accurate. Further, it delineates the equitable division of revenue across different spheres of government.
- (ii) *Encourages Investment*: MTEF not only talks about the expenditure framework for an economy or for a particular sector but also encourages higher investments in the economy

by provisioning appropriate taxation principles so that quantum of public spending can be more predictable.

- (iii) *Improves Transparency:* It also helps improve budget transparency and can generate more public discussion by making government's longer- term policy goals and overall strategy for getting there publicly available. Further, outlining future spending provides a signal to civil society and public at large about the government's priorities and how it intends to implement its vision over a period of time.
- (iv) *Facilitates Programme Evaluation:* An MTEF sets a rolling target of public expenditure for ensuing couple of financial years based on the baseline investment scenario. Hence, such future predictions of expenditure targets provide a baseline for assessing the effectiveness of the programmes/schemes implemented in the past.

2.0 International Experience

2.1 African Status

Although, a number of African countries started implementing MTEF, the quantitative evidence shows that MTEFs are not yet unambiguously associated with their objectives (Houero and Taliario, 2002). With regard to the experience of implementing MTEFs in South Africa, the MTEF was adopted in 1998 with the publication of the Medium Term Budget Policy Statement and was rationalized as a tool during the subsequent period. Implementation of MTEF in South Africa, as noted by the analysts, enhanced stability by letting provinces and national Ministries know what resources would be likely to be disbursed to them over a three-year period. Secondly, it encouraged investment by making taxation, interest rates and government spending more predictable. Thirdly, it improved transparency by making government's long-term policy goals and overall strategy available to the public. Finally, this facilitates programme evaluation by providing a baseline for assessing the effectiveness of the past year's programme.

In case of South Africa, the Ministry of Finance is compelled to determine anticipated revenues, expenditure and deficit, and make recommendations of revenue division between national departments and a couple of provinces as a part of initiating the budget process. In relation to policy planning, a Budget Council was instituted to deliberate on the macroeconomic constraint of the budget and ultimately, binding decisions around these deliberations are undertaken by the Cabinet. This seems to suggest that practice of MTEF is in line with the prerequisite of good practices. Thus one can conclude that MTEF practice in South Africa is effective. There is a view that MTEF in South Africa led to improved allocation of resources to strategic priorities among and within sectors, provided line agencies with a hard budget constraint which ultimately increased autonomy and offered incentives for efficient and effective use of funds.

In Uganda, MTEFs were initiated independently of any-donor led operation. Ministry of Finance Planning and Economic Development exercised strong leadership over the process. The MTEF overcomes the tension between long term 'desires'-based planning and incremental, short-term budgeting driven by fiscal pressure. The MTEF matches unlimited needs to limited resources, ensuring that the overall intent of public policy is achieved over time. The MTEF increases effectiveness by improving the procedures and institutional arrangements of the public expenditure management system.

However, except Uganda and to some extent South Africa, as noted above, there is no such clear evidence that there is a significant impact of MTEF in terms of macroeconomic balance. Similarly, for resource allocation, there are some limited and qualified evidence to suggest that MTEFs are linked to reallocations to a subset of priority sectors. With respect to budgetary predictability and consistency, there is no support for the assumption that MTEFs are associated with greater discipline and less deviation. At best, these cases present a mixed picture (Houerou and Taliercio, 2002).

The preliminary impact assessment of MTEF in Africa is presented below.

Summary of Preliminary Impact Assessment of MTEF Reforms in Africa

Expected Outcomes	Actual Outcomes
Improved macroeconomic balance, especially fiscal discipline	No clear empirical evidence of improved macroeconomic balance
Better inter- and intra-sectoral resource allocation sectors	Some limited empirical evidence that MTEFs are associated with reallocations to subsets of priority
Greater budgetary predictability for line ministries budgetary	No empirical evidence of link between MTEFs and greater predictability
More efficient use of public monies to generate efficiency gains in sectoral spending	No evidence that MTEFs are developed enough

Source: Houerou and Taliercio (2002).

However, commentators have also presented a number of possible explanations that might mitigate the weak performances of MTEF so far. Firstly, except Uganda, MTEF in most of the countries, say for example Ghana and Tanzania are all less than a decade old. So, in this short period of time, it would not be possible to assess the impact of MTEF accurately. As with any comprehensive budgetary reform, MTEF needs to be developed over the long term. Even MTEF in Uganda, which is nearly a decade old, does not reveal a one to one correlation between impact and longevity. The Ugandan case might also suggest the tentative hypothesis that MTEF reforms take a minimum of a dozen years (Kasek and Webber, 2009).

It has also been argued that any attempt of assessing a country's effectiveness in employing MTEF, as a tool, various steps of this tool needs to be understood clearly. These steps could be setting of fiscal aggregates, policy planning and making of binding decisions etc. Apart from this, effective implementation of the MTEF requires the setting of aggregate and sectoral spending ceilings based on realistic revenue projections are needed. Hence, the effectiveness of MTEF depends on few pre-conditions. These pre-conditions are as follows:

Good Macroeconomic Policies: As a basis of MTEF, good macroeconomic policies are pre-requisites. Better analysis and forecasts of resource augmentation, possible impact of certain other non-economic variables etc. are also needed as a basis for a successful MTEF.

Adaptable Fiscal Policy and Instruments: The MTEF approach is based on a strong link between macroeconomic policy and fiscal policy. Plans for future expenditure must be based on reasonable estimates of prospective resources. Apart from fiscal policy instruments, other monetary variables need to be predicted accurately for addressing a wide range of uncertainty over the period of MTEF implementation.

Reprioritization and Reallocation: Behind the move to MTEF there is a conviction that the annual budget, by itself, is a poor mechanism for shifting/ altering resources from lower-to-higher priority use. A major function of an MTEF is to provide a better mechanism for aligning budgets with policy objectives so that maximum benefit can be reaped. It is also viewed that annual budgets are not sufficient (in terms of time frame) to accommodate the changes that are required which are caused accidentally.

Budgetary Discipline: Budget allocations must be based on a hard aggregate budget constraint derived from what is affordable and the line ministries must adapt to their budget allocations.

Institutional Conformity and Absence of Bias: An MTEF requires a supportive institutional base where various actors can use MTEF as a framework within which expenditure decisions are taken. In particular, political decision-makers must accept the MTEF as the means by which resources are allocated.

Transparency: Certain degree of fiscal transparency and policy transparency is required, which ultimately improves the accountability of actors engaged in the planning and budgeting process. Fiscal transparency means being open to the public about the structure and functions of government, fiscal policy intentions, public sector accounts, and fiscal projections. Policy transparency means being open to public about what government intentions are in a particular policy area, which outcomes are to be achieved, and the costs of achieving these outcomes.

Furthermore, it is evident from various OECD country experiences that some stringent conditions have to be fulfilled before accruing full benefits of the Medium Term Expenditure Frameworks (IMF, 1999) and these preconditions are unlikely to be fulfilled in most developing countries. From the experience across the world in terms of implementing MTEF, it would be plausible to conclude that to reap the benefit of MTEF, a good budgeting system along with other important improvements in public administration and management are prerequisites (Kasek and Webber, 2009). Experience suggests that MTEFs single handedly cannot deliver improved public expenditure management in countries, which lack other key aspects of budget management, notably budget execution and reporting (Houerou and Taliercio, 2002). So, before implementing MTEFs, a comprehensive and detailed diagnosis of budget management systems and processes must precede MTEF (for summary of MTEF, see the table on the next page).

Theoretically, though MTEF is a sound policy tool as it is quite rational to plan and manage finances in such an integrated manner, we must be cautious before prescribing it as a prepackaged solution to diverse countries budget problems. Experience across the globe suggests that identifying the essential components of a successful MTEF is not easy and despite the theoretical popularity, there are very few established medium term frameworks so far (OPM Review, 2000).

As a whole, MTEF has several merits with a number of limitations. MTEF is theoretically a sound policy tool and even the basic acceptance of the principles of medium term budgeting may improve the realism of sectoral budgets. This would significantly benefit many developing countries where a large gap between stated policies and actual resources leads to ad hoc spending cuts in budget implementation (OPM Review, 2000).

Experience of Developed Countries: Case of Australia

Australian experience is quite useful as it is one of the oldest one. In the early 1980s, Australia embarked on its comprehensive reform programme with a key consideration of perceived inadequacies in the links between policies and programmes and the resources allocated to their implementation. Its subsequent fiscal crisis raised fundamental concerns about the affordability of government policies. The response to this was to take the system of forward estimates which had played a peripheral role in decision making and place it at the center of both resource allocation decision making and resource use. Australia had the following key elements.

MTEFs in Africa

Country	Year of Initiation	Who is involved
Uganda	1992	The World Bank participated in the MTEF reform and offered assistance on an ad hoc basis.
Tanzania	1998	MTEF reform was promoted by the 1997 PER. The MTEF was developed in the context of the annual, participatory PER process. Key elements of MTEF implementation (e.g. preparation of the MTEF FY00-02 itself) and expenditure reallocation targets were included as conditionality in the Programmatic Structural Adjustment Credit (6/2000).
South Africa	1997	The first effort at MTEF reform was supported by the World Bank, which also provided advice during implementation.
Rwanda	1999	MTEF reform was proposed by the 1998 PER. The MTEF position paper and plan of action were financed by DFID.
Namibia	2000	----
Mozambique	1997	The MTEF was promoted and supported by the Bank and DFID, which provided consultants and training.
Malawi	1996	The MTEF was introduced in 1996 by the Fiscal Restructuring and Deregulation Programme (FRDP I) and further supported by FRDP II in 1998 and FRDP III in 2000.
Kenya	1998	MTEF reform was promoted by the 1997 PER. Key elements of MTEF implementation were included as conditionality in the Economic and Public Sector Reform Credit (6/2000). MTEF reform was promoted by the 1997 PER. Key elements of MTEF implementation were included as conditionality in the Economic and Public Sector Reform Credit (6/2000).
Guinea	1997	The MTEF was adopted as part of World Bank's Public Management Adjustment Credit.
Ghana	1996	The World Bank promoted MTEF reform. The MTEF was introduced as part of Public Financial Management Reform Programme.
Gabon	1998	MTEF was first proposed in 1998 CAS.
Burkina Faso	2000	The World Bank has been a fairly active partner in the MTEF reform.
Benin	2001	The World Bank has been active in supporting MTEF reform.

Source: Houerou and Taliercio (2002).

Aggregate Fiscal Targets: Beginning in 1985, the Australian government adopted a medium term "trilogy" strategy of not increasing outlays or revenue as a proportion of GDP and of reducing the deficit/ GDP ratio. The later economic crisis further led to this commitment tightened to no real increase in expenditure. The credibility of the forward estimates became central to the success of this strategy. By the end of the 1980s the deficit of 4 percent was converted to a surplus of 2 percent, government had significantly reoriented expenditure to reflect its core strategic priorities and the incentives for efficient and effective use of resources had been considerably strengthened. The early 1990s recession saw a return to deficits and

fiscal targets have been focused on a realistic time path for returning to balance (the 1997-98 budget deficit is forecast to be less than 1%). More significant has been the "Budget Honesty" commitment of the government, which required the government to regularly publish projections of expenditure and revenue, notably in the three months prior to an election¹.

Forward Estimates of the Cost of Existing Policy: The Australia 'forward estimates' system evolved from the late 1970s through the 1980s. The forward estimates process develops estimates that, on a rolling basis, project the level and composition of expenditures for three years beyond the current fiscal year, assuming no policy changes. These are adjusted regularly to take account of factors such as inflation, where program expenditures are indexed, and government policy decisions that may increase or decrease estimated costs. The practice prior to 1983-84 involved the Department of Finance collecting bids for programme spending from sponsor departments without rigorously examining the basis for them, except with respect to the first year. Accordingly, these bids reflected departments' own assessments of their future needs, a practice that has been described as "a major cause of ... creeping incrementalism of government [expenditures]".

Under this approach, the Department of Finance negotiated with departments the estimates for existing programmes, and then assumed responsibility for updating the forward estimates at regular intervals to reflect, as indicated above, changes in economic parameters, other technical variations and, most important, the effects of government policy decisions. The same process is followed with new policy and programme proposals, for which projected costs for the full forward estimates period are required as part of the policy proposal considered by Cabinet. Thus, the Department of Finance is seen as "owning" the forward estimates. Furthermore, whereas previously there tended to be widespread annual renegotiation of estimated expenditures, the present system is much more policy focused, involving ministers primarily in the relatively small percentage of budgetary matters that require policy or strategic decisions (although the funding implications may involve a high proportion of budget funding). *The forward estimates are a disciplining mechanism in the budgeting process that enables a greater focus on strategic policy issues. At the same time, they provide much greater predictability as to resource levels for departments and agencies. In essence, the system envisages that if government policy does not change then funding will be provided in accordance with the forward estimates.*

The impact of forward estimates show that that Australia has a budget system in place with forward estimates, and the haggle over the base for each new budget year does not take place any more, is a huge advance. In 1983, a significant decision in the evolution of the forward estimates system was made when the government decided to publish them. The requirement to disclose costs for the three- year forward period was intended to ensure that decisions were made with greater awareness of future commitments, and to provide Parliament and the public with better information about budgetary realities and public expenditure patterns and priorities. The decision to publish also meant that forward estimates had to be taken more seriously, thus leading to their progressive upgrading. As the system has evolved, the government is required to disclose and justify the costs of policy decisions leading to discretionary changes in expenditures over the three- year forward estimate period. The estimates are published in the budget alongside the budget year figures and changes between the forward years and the budget

are reconciled in budget documents- that is, the budget estimates are reconciled with the forward estimates compiled the previous year. These reforms have tended to shift the focus for ministers and senior officials to a medium-term period (of four years), rather than the current budget year.

The impact of the forward estimates has been such that an evaluation of government reforms in 1993, in linking the forward estimates system to the record of overall government spending restraint, characterized them as "central to the expenditure control process". The forward estimates process and system was so central because it provided the backbone, which linked the Australian Expenditure Review Committee's macroeconomic and strategic policy- making, portfolio budgeting, and the running costs system. It has provided a framework for a more strategic approach to decision making, much greater predictability in funding for current policies and for removing from the budgetary arena those decisions best made elsewhere (most notably management decisions). The system has built on trust and has changed behaviour fundamentally. Perhaps the most important factor here has been the fact that, having changed the formal rules, all the players have played by the new rules.

Institutional Mechanisms for Making the Trade-offs: The Expenditure Review Committee (ERC) established by the Australian Government in the mid-1980s was central to the subsequent improvements in all three levels of budgetary outcomes. This committee was a sub-committee of the Cabinet, consisting of the Prime Minister, the Treasurer and Minister of Finance but also of a number of other senior "spending" ministers. This committee was responsible for determining the overall fiscal framework and for managing strategic policy making, including policy changes necessary to reflect fiscal realities as well as the shifting priorities of the government. One of the key strategic decisions made by the ERC was the resource envelope for each sectoral minister for finalization of the annual budget. Depending on whether the envelope was higher or lower than the forward estimates of existing policy (adjusted for the individual policy decisions made by ERC), individual sector ministers would have to seek programmatic changes that would produce savings or they may be able to introduce new initiatives. The key point here is that it was left to sector ministers to determine the best allocation of resources to policies and programs in their sector consistent with overall government policy and within a hard budget constraint.

The third element of the system was the running costs system. This system provides line managers with considerable flexibility in managing their personnel and administrative resources within a hard budget constraint but one, which is predictable over the medium term. This system eliminated the annual haggle over funding levels for administration and has meant that ministers have been freed from involvement in decisions at this level. It is the efficiency dividend component of the system which has enabled decisions on running costs to be kept out of the Cabinet arena and has built the trust between line agencies and the Ministry of Finance.

Finally, it is worth noting that the forward estimates system enabled the Australian Ministry of Finance to assume something of a banker role. The Australian government along with all this also undertook major modernization of its tax system that involved an investment of over A\$1billion. Because of the forward estimates, Australian Ministry of Finance was able to reduce the Tax collection costs.

3.0 India and MTEF

The budget preparation in India is guided by a budget calendar, which is generally indicated in the budget circular issued by the Ministry of Finance for each year. The budget circular is issued in the month of September and it provides sufficient time to the ministries/ departments to complete their budget preparation before the budget is presented in February for the ensuing fiscal year, which starts from 1st April each year. The budget preparation involves participation of ministries/departments when they submit their initial budget estimates followed by interactions with the Ministry of Finance, where the budget ceilings (particularly the plan budgets) are communicated to the administrative departments. The departments finalize their budget estimates after taking into account the expenditure ceilings communicated by the Ministry of Finance and the plan allocations from the Planning Commission, which determines the size of funding for new schemes. A detailed medium term expenditure framework for various sectors is yet to be worked out. The budgeting, in India, thus remains strictly annual without a multi-year perspective relating to expenditure commitments of various sectors.

However, the five-year plans in India provide the basis for a multi-year perspective for resource allocation. However, the economic planning and budget differ in their scope and time span. While plans provide a conceptual framework by focusing on various sectors in the economy, the budget is more concerned with systems of control over the use of funds by government and pays more attention to financial aspects. It is not uncommon to initiate major projects and schemes, which are not provided for in the plan.

There is no denying fact that integration of planning and budgeting, a key requirement for performance of government sectors is possible under a multi-year expenditure planning. Further, a multi-year perspective to budgeting is necessary as a single year is not sufficient to prioritize expenditure for a particular programme/ scheme/ sector for achieving targeted objectives and/ or overall development. Also, a realistic multi-year expenditure planning is an important requirement for performance oriented budgeting and linking resources to policy objectives. A multi-year approach to expenditure planning depends on getting unbiased revenue forecasts in the medium term that provides the available resource envelope for the government to formulate different developmental schemes/ programmes within the known resource base to achieve sectoral objectives. Although, it is quite clear that a multi-year perspective in expenditure planning and budgeting has been lacking in India, for a few components of total expenditure in the country, there exists a rolling expenditure target.

In this respect, attempts were made in the 1980's for introduction of a medium-term framework, which was not followed up in later years. The enactment of the Fiscal Responsibility and Budget Management (FRBM) Act and stipulation of presenting a Medium Term Fiscal Policy (MTFP) along with the budget brought back the issues once again into the budgeting system in 2003. However, the MTFP mandates to present three year rolling targets relating to major fiscal indicators such as revenue deficit, fiscal deficit, tax revenue and outstanding liabilities as percent of GDP only. Nonetheless, in enhancing transparency in India's fiscal operations, some progress has been made in this direction especially after the adoption of the FRBM Act in 2004. The government started presenting fiscal policy strategy documents and projecting major fiscal indicators in the medium term. This has provided better understanding of government fiscal

policies relating to revenue generation and expenditure prioritization etc. The budget documents also contain relevant information on macroeconomic forecasts, fiscal deficit indicators, deficit financing sources, government borrowings and debt stock, prior year budget out-turns, and outlines of new tax policies and fiscal data etc. By 2010, all the state governments including the union government had presented such a medium term fiscal framework statement, as part of FRBM, which is largely focused on targets for major macro-economic variables.

3.1 Assessment of Implementation of MTEFs

MTEFs are prepared with an objective to make budget management process more strategic and performance oriented by linking budgetary outlays to outputs and then outcomes. So, the basic purpose of implementing MTEF is not only restricting to measure the physical outputs of budgetary expenditures but also enhancing financial performances of these budgetary expenditures in terms of outputs and outcomes. More so, MTEFs are also linked to the Ministries/ departments objectives with that of wider goals of the government wherever it is feasible. As stated above, in India the current budgetary process at the national and sub-national levels articulates the linkages between budgetary outlays and physical outputs at scheme level wherever it is feasible. But it has been observed that linkage between schemes' outputs and department objectives are weak, and many a time the arbitrariness of budgetary allocations for the schemes and programmes ends up with non-realization of desired outcomes and even outputs.

Further, through MTEFs the emphasis generally is more on monitoring inputs, which limits accountability for outputs and policy objectives. This is further accentuated by the fact that besides objectives being long term in nature, their achievement cannot be attributed to any single output or within a short span of timeframe. In addition, implementation of MTEFs infuses resource consciousness and strategic reprioritization through knowledge of informed likely resource availability over medium term within which the spending agencies are to contain their expenditure.

Since the past few years, a significant trend that has emerged in State Budgets is the increasing role of Centrally Sponsored Schemes (CSS), with a major portion of such funding to departments being routed through off-budget transfers (by passing state budgets/treasury system/or directly transferring resources from the Union Government to the implementing agencies/ societies). The situation is very acute these days and it is very difficult to quantify exactly the quantum of public expenditure happening in various sectors by the public authority. It has also been noticed that at the sub-national level, parallel programmes are being run to achieve the same targets and objectives while deploying huge amount of public money through different channels with sheer lacking convergence.

Given the scenario in India, MTEFs aim to strengthen the linkages among outlays, outputs and objectives and goals consistent with overall fiscal discipline in the following ways:

- Supporting the concerned administrative departments in utilizing the MTEF document in the formulation of departmental annual plans/five year plans/ strategy documents;
- Preparing departmental resource envelope involving projections for likely availability of resources for next couple of years to the department;

- Developing 'logical framework' to establish direct linkages between government goals, department objectives, and department schemes with their respective outputs;
- Assisting in identifying those small/insignificant schemes in each department wherein rationalization could be done, i.e. wherein the services can be provided through 'other' flagship programs that have untied funds;
- Assisting in prioritization of department objectives;
- Supporting the departments in undertaking gap analysis to identify interventions;
- Supporting the concerned departments in preparation of their budget demands based on costing methodologies of MTEF document and updating costing methodologies in the MTEF document, if required; and
- Identifying opportunities for savings for undertaking additional interventions and re-prioritization of expenditure under constraining resource envelope.

However, successful implementation of MTEF needs to be strengthened to achieve desired results. For ensuring translation of outlays into realization of objectives and goals, processes of budget formulation, execution and monitoring have to be strengthened. It is true that MTEF through strategic allocation of resources among sectoral and departmental priorities competing for limited fiscal resources and better costing of schemes enhances budget formulation process. Similarly, in implementing the budget, the MTE framework enables government to make informed choices that are affordable in the medium-term, and to reprioritize expenditure as required. It also promotes operational effectiveness in the service delivery by establishing clear linkages among department schemes, outputs and objectives, and also suggesting interventions wherever required. Further, by linking expenditures to specified achievement in performance indicators and identifying unit costs under specific outputs, MTEF provides a strong monitoring framework. Experience of Planning & Budgeting in MTEF and conventional budgetary practices can be summarized as follows:

Dimension	Conventional Budgetary Practices	MTEF
Sector level Budget	Each department prepares its own budget There is no integrated sector budget	Provides rolling, multi-year, integrated document. sector budget.
Medium-term Perspective	Only annual plan budget estimates are prepared within the framework of the state's Five Year Plan. Non-Plan and off-budget expenditure are budgeted on year-on-year basis.	All budget components are brought under medium term perspective.
Inputs of Public Expenditure Review (PER) in Budget Formulation	Public Expenditure Review is not undertaken prior to budget formulation.	PER is an integral process component of MTEF preparation.
Identification of Gaps	Resource gaps are not explicitly identified.	Highlights resource programmatic and resource gaps.

3.2 MTEF and Water Sector: Other States

PricewaterhouseCoopers (2010) undertook preparation of Medium Term Expenditure Framework (MTEF) for WRD included undertaking sector level and project level analysis for all irrigation related activities of WRD of Madhya Pradesh. It did separate analyses for Major, Medium, Minor, CAD and Flood Control. The study showed that the status of key indicators in

irrigation sector of Madhya Pradesh included (i) Uneven spatial and inter-temporal rainfall that requires storage for capturing water at social and environmental costs and impacts; (ii) Inefficient and underutilization of developed water resources for irrigation, and; and (iii) Insufficient and ineffective operation and maintenance of irrigation projects with poor cost recovery and ineffective operation and maintenance of irrigation projects with poor cost recovery. Delving over experience of past expenditure trend, it noted that: (i) in line with the 106 percent growth in allocation for GoMP's Eleventh Five Year Plan vis-à-vis the Tenth Five Year Plan, amount allotted to the development head of Irrigation and Flood Control has also doubled; (ii) amongst the various categories of irrigation projects, share of Minor Irrigation increased from 29 percent to 38 percent while that of Major and Medium Irrigation fell from 70 percent to 61 percent in the total allocation for Irrigation and Flood Control under the Eleventh Five Year Plan. This indicated an increased focus on smaller scale irrigation projects; (iii) allocation under Demand No.23 had increased substantially in 2007-08 as existing projects had been given higher allocation for speedy completion with 8 major and 9 new medium schemes under during the 11th Five Year Plan; and (iv) Object wise analysis of non-plan expenditure showed that the object 'major construction work' had shown a trend growth of over 34.46 percent over the period 2004-10, expenditure under maintenance object has registered a negligible growth of 1.72 percent over the same period. This clearly hinted at inadequate funds being allocated for day to day upkeep and repair of existing irrigation systems. This could be an important factor contributing to low utilization of irrigation potential created in the state. The expenditure projection methodology of the study included (i) separate analysis undertaken for expenditure on Major, Medium, Minor, CAD and Flood Control; (ii) Project level analysis undertaken under each of the above heads; (iii) Objective parameter for allocation of funds across ongoing major projects formulated; (iv) Projections made at minor head level for plan expenditure and at object level for non plan expenditure; (v) Trend analysis undertaken for forecasting non salary plan expenditure; and (vi) The proposed strategy leading up to development of MTEF for the department was around improving the ratio of irrigated area to irrigation potential created. The interventions suggested by the study were: (i) Physical targets and corresponding financial requirements for attaining I/P (irrigation to potential) ratio of 0.6 and 0.7 (as two scenarios) under major irrigation have been calculated; (ii) Additional allocations required for maintenance and repair under Major and Medium irrigation as per norms given by 13th Finance Commission have been estimated; (iii) Possible improvements in planning processes for minor irrigation have been proposed; and (iv) possible targets for increasing coverage under CAD were suggested and costed. It arrived at annual growth of 13.33 percent expected under trend scenario and annual growth of 15.24 percent and 16.09 percent expected under two scenarios considered for MTEF expenditure requirements for next five years. Further, an increase of 17.96 percent was assumed for salary head as has been assumed in FRBM Report 2010-11 for Madhya Pradesh. For this, the anticipated Plan Resource Availability was to grow at an average annual growth rate of 15.83 percent anticipated from 2009-10 RE to 2014-15. Also in order to achieve reconciliation and reprioritization, it states that reconciling plan expenditure requirements with anticipated plan resource availability is required. For containing the trend plan expenditure growth within the projected resource envelope, the non-salary plan expenditure will have to grow at 13.04 percent, given that salary component inclusive of 6th CPC recommendations is poised to grow at 17.96 percent. This would result in the overall total plan expenditure annual growth of 13.78 percent. Affordability during 2010-11 to 2014-15, however, contingent on the assumption that the State

Plan Scheme allocations grow at an annual trend rate of 16.16 percent while the CSS allocations grows at a rate of 23.85 percent, which is quite high. If the CSS allocations grew at lower rate, affordability becomes an issue. The department has to identify savings/ additional resources to the extent of Rs. 276.50 crore in 2010-11 under scenario first while Rs. 465.86 crore under scenario two would be required. The savings/additional resource requirement however is projected to decline every year reaching a requirement of Rs. 350.61 crore in 2014-15. Since the salary component is a committed expenditure under non-plan, the department will be required to explore savings in the non-salary component of non-plan expenditure or undertake reprioritization of expenditure to be able to meet the resource requirements for identified interventions. Keeping in view the current economic situation of average revenue buoyancy in the state and discussions with the government, it was decided to cap the overall plan expenditure at trend projection levels for MTEF. Hence, assuming that the department will make up for the amount under trend deficit, reprioritization exercise for WRD was suggested by identifying Heads from which savings would have to be identified and reallocated to Heads linked to proposed interventions under the moderate reform scenario.

The study also reviewed institutions. It reported that in case of major/ medium projects, budgeting process for irrigation projects is contingent on the ceiling available for plan schemes received from the State Planning Board and also seemingly it's a more top down process than a bottom up approach. A more scientific methodology is thus a need to ensure allocative efficiency in the department. In case of minor irrigation, they are district schemes and as per the 74th amendment, the decision of the projects to be undertaken has been devolved at the third tier of the government. It is a general perception that DPC has been unable to function optimally and decisions are more influenced by politics rather than local priorities. The district planning being driven by political considerations renders the resource demand from districts becoming a simple demand aggregation exercise without any prioritization or consideration to district ceilings provided by the State Planning Board. Water Resources Department is left with no option but to allocate available resources to districts and give DPC the discretion to allocate sanctioned resources among various projects. Hence, the allocation at the district level is not need based due to weak planning processes and political pressures. Despite being a bottom up approach for allocation of funds, the process, as a matter of fact, involves a combination of finding a match between the requirements of the district and the district plan ceiling. In order to resolve such a structural issue, amendments are required in composition of DPC. Presently, only few local leaders and department officials at district level are involved in formulating recommendations for schemes. It was recommended that this exercise be further devolved to block level and village level (if required). An aggregation of schemes at block level with mandatory priority ranking should be undertaken with reasons being stated for the rankings.

Maintenance Norms: For increasing the potential utilization, as per the discussion with department officials, the costing norm is Rs.30,000 per hectare for major and medium irrigation. Minor irrigation is mostly private owned and very small part is owned by the government. For maintenance expenditure, Thirteenth Finance Commission had recommended the maintenance cost norms for all sub sectors in irrigation. According to the 13th Finance Commission, for utilized potential (i.e. irrigated area) Rs.1175 per hectare should be spent and for unutilized potential (the gap between potential created and actual irrigated area) Rs.588 per hectare should be

used for major and medium irrigation projects. Presently, approximately Rs 150 per hectare is being spent for major and medium irrigation and Rs.50 per hectare for minor irrigation. Thus, there is a huge gap between resource allocation and required expenditure. For development of area under CAD, according to department officials, the costing norm is Rs.10,000 per hectare.

Hence, main institutional reasons for the constrained performance of the department are summarised as: (i) Lack of scientific methodology in budgeting and fund allocation; (ii) Inadequate indicator based monitoring and evaluation of the projects undertaken and implemented; (ii) Inconsistent and inadequate effort in bridging the gap between the potential created and its utilization; (iii) Time & Costs Overruns: Insufficient and ineffective operation and maintenance of urban/rural water supply with poor recovery costs.

4.0 MTEF in the Context of Water Sector: Case of Rajasthan

Water plays a crucial role as basic element of sustaining life, as a source of irrigation and for non-agricultural uses. Over the years, over-exploitation of this scarce resource has increased manifold to meet the demands of the growing population. Intensive competition and the resultant socio-economic and political tensions between uses and users for available supplies, and depletion of groundwater tables are the indications that demand for water is surpassing its availability. Water has thus become an important and highly contentious issue of public policy these days. It is therefore essential to work out rational strategies and policies for coping with the situation and encourage informed public discussion of alternatives to arrive at an acceptable social consensus on how best to balance competing claims with an economizing scale of public resource use.

There is no ambiguity about the fact that Rajasthan, where drought is a rule rather than an exception, needs more focused water policies for overall economic development, which may further induce poverty alleviation. A few major factors, among others, that place Rajasthan in a more precarious situation compared to other regions in India are: i) the frequency of droughts (four out of every 5 years); ii) extremely low and erratic rainfall; and iii) very limited surface water sources, like perennial river basins, resulting in greater dependence on groundwater resources (Reddy, 2010).

4.1 Challenges in Water Sector in Rajasthan

Rational and sustainable water management has become a far more complex and difficult task (economically, technically, socially and politically) than can be handled by traditional cost-benefit analysis of particular projects. It calls for reliable information on a wider range of aspects and comprehensive knowledge regarding the current and emerging situation regarding sources and uses of water; the scope for and ways of augmenting supplies and increasing the efficiency of water use; alternative possibilities available, their technical feasibility and implications both beneficial and adverse (including displacement, forest submergence, impact on riverine and estuarine ecosystems as well as sustainability) and associated costs, and the distribution of costs and benefits between regions and a wide range of stakeholders.

The major challenges that the Water sector in Rajasthan faces are (GoR, 2010; GoR, 2012): (a) increasing gap between demand and supply and decreasing per capita availability of water, (b)

inequity in access to water, (c) depleting ground water resources and deteriorating quality of water, (d) no control over ground water exploitation, lack of water legislation, (e) high cost of service, low cost recovery, and low expenditure on Operations and Maintenance (O&M), (f) uncertainty in availability of water, (g) low operational efficiency of water resource systems.

Rapid urbanization coupled with rapid economic growth has led to urgent requirement of various urban infrastructures namely roads, water & sanitation, solid waste management etc. But decades of under investment in these sectors have reached a point where there are capacity constraints in these sectors and due to lack of maintenance; limited results have been gained out of these public investments. Further, lack of robust institutional structures; poor commercial management- tariff & cost recovery; outdated systems- Finance, Accounts & MIS; have led to these sectors attracting lower capital over the years.

Similarly, nearly all cities and towns have piped water system but do not function efficiently and are characterized by low pressure and frequent breakdowns. In rural areas, most villages have hand pumps, but they remain un-operational for days together. The pressure is inadequate and often the chemical and biological quality of the supplied water is not as per recommended standards.

Due to deteriorating assets, declining productivity has led to increasing operating cost. This in turn has led to declining service levels which encourages customers not to pay leading to declining revenues, lesser access to financing and thus lesser investment in the asset. This leads to a vicious cycle of unsustainability- unsustainable utilities, depleting natural resources and increasing demand- supply gap. In this situation Service Providers are in perpetual operational & financial distress. Service expansion is impossible.

In this context, it was viewed that MTEF can help better planning of water uses while realizing the policy objectives within a definite period of time.

4.2 Availability of Water

Rajasthan has 1.16 percent surface water and 1.72 percent ground water of the country. About 66 percent of the land is classified as arid and semi-arid, suffering from recurrent water scarcity. Out of the total 142 desert blocks in the country, 85 blocks are located in the state. The state has no perennial river barring Chambal which traverses some parts of the south-eastern portion of the state. Monsoon rains are scanty, erratic, and unevenly spread over the state. Rajasthan has to depend on its share of water from inter-state river basins. The total surface water available in the state is 21.71 BCM, out of which 16.05 Billion Cubic Metre (BCM) is economically utilizable. The state has so far harnessed 11.85 BCM (72% of utilizable portion). In addition, the state receives allocation of 17.88 BCM through inter-state water sharing agreement. Current deficit between demand and supply of water is 8.0 BCM, which is likely to increase to 9.0 BCM by 2015. Irrigation potential is likely to be 37.91 lakh hectares by the end of 2011-12, with the construction of 118 major and medium and 3,311 minor irrigation projects. Nearly 90 percent of the ground water is used for agriculture purpose, leaving a small share of 7 percent for supply of drinking water. Out of 237 blocks, only 30 blocks are in 'safe' category, 8 blocks in 'semi critical' category, 34 blocks in 'critical' category, and 164 blocks in 'overexploited' category. Out of 121,133 habitations, 51,283 habitations are partially and 69,850 habitations are fully

covered under drinking water supply. No. of quality affected habitations is 32,150. All the 222 towns of the state are fully/partially covered by drinking facility.

Due to geographical location, Rajasthan has very limited amount of water resources; both surface and ground water. Having 5.5 percent of population and 18.7 percent livestock of the country, it has only 1.72 percent of ground water and 1.16 percent surface water of the country. The situation has become worse due to the higher population growth in the last decade, which has put pressure on present low per capita availability of water of 807m³ which is expected to decline to 457m³ by 2045 and consequently, it would lead the state from 'scarcity' to 'absolute scarcity zone' (Reddy, 2010)². Further, as Rajasthan has 51 percent of the fluoride and 42 percent of the saline affected areas in the entire country, quality of water is also a serious area of concern.

Ground water is already overexploited in most of the regions. Out of 32 districts, in 16 districts ground water is overexploited (more than 100%) and the rates of exploitation are as high as 165 percent in Jhunjhunu and 153 percent in Jodhpur (Reddy, 2010). Nearly 90 percent of the ground water is used for agriculture purpose, leaving a small share of 7 percent for supply of drinking water. In sum, the available water is not enough to cater to the needs of the drinking, agriculture and non- agriculture demands.

4.3 Equity in the Water Sector

Inequity in the water sector is prevailing across regions, sectors and between rich and poor as well as gender groups. Regional differences are seen in terms of geographical locations i.e. between districts or regions and between rural and urban locations. Similarly, disparities across different sectors like irrigation, drinking water and industry are also prevalent in Rajasthan.

Rural water supply in southern region fares best; followed by northern, eastern and western regions. Further, in the case of quality of water, the western region has the highest incidence of fluoride and chemical (nitrate, salinity, etc.) contamination. On the other hand, the western region also has the widest coverage of piped water supply (mainly regional schemes), followed by the north-eastern and southern regions. Dependence on hand pump is very high at 91 percent in the southern region and 71 percent in north- eastern region. In urban areas the coverage of house connections range from 100 percent in the towns of the Churu and Jhunjhunu districts to as low as 22 percent in the Kota district. On the other hand, water shortages are highest in Sawai Madhopur (83%) and Bharatpur (72%), while Dungarpur has the least shortages when WHO norms are applied for estimating the water demand. Similarly, regional differences are substantial even in the case of groundwater development and extent of irrigation.

Between rural and urban locations, there is a clear urban bias in the provision of tap water. While 80 percent of urban households have access to tap water, only 21.6 percent have that access in rural areas. The average supply of water is above 100 litres per capita per day in urban areas as against 39 litres per capita per day in rural areas.

Besides, the state is faced with several challenges, including the following³ :

- Increasing gap between demand and supply and decreasing per capita availability of water
- Uncertainty in availability of water

- Inequity in access to water
- Low operational efficiency of water resource systems
- Depleting ground water resources and deteriorating quality of water
- No control over ground water exploitation, lack of water legislation⁴
- high cost of service, low cost recovery, and low expenditure on Operations and Maintenance (O&M)
- Lack of ownership among the stakeholders

4.4 Sustainability

As the groundwater is overexploited in many regions in Rajasthan and there is very limited utilizable surface water, priority must be given towards future sustainability. Firstly, there is an urgent need for groundwater stabilization and management of groundwater exploitation. Otherwise, in the short run or medium run, groundwater may become extinct in these districts. Groundwater development and harnessing must be done in an integrated manner with surface water bodies like tank sand canals. The enormous natural capital of traditional water harvesting structures that lay idle must be revitalized and these structures need to be revived and followed up with appropriate institutional arrangements for managing them in a sustainable manner (Reddy 2010). Further, to enhance water availability through promotion of water use efficiency; the most cost effective option is demand management. The possible strategies could be adopting appropriate economic measures, technologies or putting appropriate institutional mechanism in place. Further, "Sustainability of institutions is often critically linked with the integration of market principles into the institutional arrangements. Similarly, incentive and disincentive structures such as pricing of resources and subsidizing the technologies help to fast track the adoption of technology" (Reddy, 2010).

4.5 Expenditure Trend

Despite the grim situation of water resources in Rajasthan, the lack of political commitment would be visible if we have a quick glance at the budgetary expenditure in water sector in Rajasthan. In the 11th Five Year Plan, overall, state's own budget allocation on water sector as a share of the total state budget has declined to 8.7 percent in 2011-12 from 12.8 percent in 2007-08. As a share of Rajasthan's GSDP, water sector budget (Rs.7647 crore) was only 2.2 percent i.e., a per capita expenditure of Rs.1104 per year or Rs.3 per day. The similar disquieting trend would be visible if the off-budget expenditures are examined; especially the water related projects/ activities under MGNREGS declined significantly indicating the state's inability to leverage central assistance.

Now, considering the gloomy picture in the water sector in Rajasthan, MTEF could be a plausible remedy as it could at least ensure certainty in the resource mobilization in this sector, which is a prerequisite in successful implementation of any programme in any sector. Additionally, budget estimate in the MTEF is supposedly need based and more realistic and it prioritizes expenditure. In the MTEF framework, for proper need based assessment of budget requirement in water sector, the whole expenditure envelope should be taken into account.

4.6 Institutional Structure

In the institutional structure of Rajasthan, water resources are developed, used and monitored by several departments; viz.

- State Water Resource Planning Department (SWRPD): It is the nodal agency for regular coordination between line departments for integrated planning and management of the water resources of the state.
- Public Health and Engineering Department (PHED): Provision of rural and urban water supply and sewerage services is the responsibilities of PHED.
- Command Area Development and Water Utilization (CAD&WU): CAD& WU is the nodal agency for the development of command areas of major canal projects (e.g. Indira Gandhi Nahar Project, Gang Canal Project, etc.).
- Panchayati Raj Department (PRD): At present, PRD has been entrusted with this responsibility of implementing Total Sanitation Campaign (TSC) scheme; earlier it was the responsibility of PHED.
- Water Resources Department (WRD): It is responsible for harnessing available surface water through various major, medium, and minor irrigation projects.
- Ground Water Department (GWD): Ground water resources of the state is developed and managed by the GWD.
- Rural Development Department (Directorate of Watershed Development and Soil Conservation): WD&SC, which is a directorate under RDD is mainly engaged in implementation of Integrated Watershed Management Programme (IWMP).

Apart from the above, Indira Gandhi Nahar Board (IGNB), Rajasthan Water Supply & Sewerage Management Board (RWSSMB), state level Rajiv Gandhi National Rural Drinking Mission (RGNRDM) also has some responsibilities towards maintaining water resources.

The expenditure of some of the departments above is reflected in the state budget documents and a significant portion is off-budget expenditure. So, in the MTEF framework, the entire resource envelope must be taken into account. Separate cells could be set up in major departments for institutionalizing the MTEF. One other important factor for effective implementation of MTEF is a regular Public Expenditure Review (PER). The line departments could also conduct field study through independent agencies to assess whether budget spending has produced the desired output/ outcome.

Several research reports indicate that significant proportion of off-budget funds is remained unutilized. This could be attributable to the shortage of technical and managerial staff across the departments. The studies also recommend that at present, the budget for operation and maintenance is very low and it must be stepped up significantly for successful implementation of MTEF.

4.7 State Water Policy

The state formulated a new State Water Policy and Action Plan in February 2010 to deal with the water sector challenges. The policy incorporates Integrated Water Resource Management and signals a shift in the role of the Government of Rajasthan (GoR) away from a controller to

a facilitator of water services provision, as well as a shift away from predominantly engineering-based supply side management to local community-based demand side management. The water policy and action plan spells out several key policy measures, including prioritisation of water uses, enactment of revised/new water related legislation, establishment of Water Regulatory Authority, and improving cost recovery through rationalisation of water pricing.

4.8 Twelfth Five Year Plan

The Twelfth Five Year Plan (2012-2017) of the state emphasizes the need to complete irrigation projects that have been under implementation for many decades, provide adequate funds to maintain the system that is already in place, and bridge the gap between potential created and potential utilised through better coordination across agencies and departments and a better involvement of water user associations that need to be empowered and provided necessary information inputs.

Another focus area of the Twelfth Plan is to increase water use efficiency especially in agriculture sector by adopting pressure irrigation, change in cropping pattern, and shift from agriculture to horticulture.

The Twelfth Plan also envisages major interventions such as control of extraction of ground water, water harvesting and water recharge, water conservation programmes, development of alternative resources through waste water recycle and desalination technologies, and water demand management through tariff rationalisation.

Proposed outlay (at current prices) of the state's Twelfth Five Year Plan for water sector (irrigation and flood control, ground water, and drinking water and sanitation) is Rs. 20735.5 crore, which is significantly higher (67%) than the proposed outlay of the Eleventh Five Year Plan (Rs.12388 crore). However, water sector share in the total plan outlay of the Twelfth Five Year Plan has declined substantially, from 17.3 percent in the previous Five Year Plan to 10.7 percent.

5.0 Conclusions

It emerges that MTEFs alone cannot deliver improved PEM in countries in which other key aspects of budget management remains weak. There are three reasons for the breach between the promise of MTEFs and their actual impact.

- First, and most importantly, MTEF reforms have not taken sufficient account of initial country conditions in basic aspects of budget management, notably budget comprehensiveness, execution, and auditing. The fact that comprehensive, detailed diagnoses of budget management systems and processes does not precede all MTEFs led to inadequate design and sequencing of the reform programmes.
- Second, MTEF reforms, with the exception of a few cases, have typically not paid sufficient attention to the political and institutional aspects of the reform process.
- Third, operational MTEFs do not closely resemble their textbook cousins, which raise questions about the feasibility of launching full-fledged MTEFs in many developing countries.

The above suggest that while one should recognize that MTEFs are potentially valuable PEM tools, they should be carefully crafted so as to make them more effective.

5.1 The Importance of Initial PEM Conditions

- For MTEF to work, it has to be based upon a good macro-fiscal model and a solid budgetary management foundation.
- Good, realistic macro-fiscal projections are keys to the success of an MTEF. The effort to improve macro-fiscal projections is necessary but not sufficient. Effort should not result in a 'technification' of the reform programme due to an unbalanced focus on the technical aspects of macro-fiscal modeling.
- The MTEF has to rest upon a solid budget foundation, which would encompass many elements, though main among them is budget execution that complies with the adopted budget.
- Consistency between the budget and its execution is a precondition for transparency, predictability, and accountability. In a country/ state where budget execution (eg., actual expenditure) bears little resemblance to the voted budget (i.e., the intention to spend by sectors, functions, and programmes), an MTEF is not likely to be taken seriously by stakeholders viz., sector ministers, politicians, civil society etc. For example, why should sector ministries spend their time and resources working on strategies and budget envelopes that will have little to do with reality because real allocations are done in parallel throughout the year?
- As the importance of the link between the budget and its execution is vital, it is suggested that strengthen budget execution and reporting, rather than budget formulation⁵. Better budget formulation would lead to improved budget execution. However, it is clearly not a sufficient condition and should not prevent from focusing on getting the basics of budget execution in order.
- Other key elements of basic budgetary management impinge greatly on the potential success of the MTEF. For an MTEF to have an impact, the problem of budget comprehensiveness must be addressed⁶.
- Finally, at least integration of the capital and recurrent budgets, detailed, functional budget classification systems, and good treasury management systems, execution, controls and audit, and transparency need to be put in place.
- The MTEF has to be complement to, not a substitute for, basic budgetary management reform. Introduction of the MTEF reform have to be tailored based on initial PEM conditions. In case of weak PEM system, a full-fledged MTEF should not be introduced. It is preferable to engage in a comprehensive and in-depth reform of basic PEM system (focusing on budget comprehensiveness, execution and reporting) while at the same time introducing some of the basic components of an MTEF, starting with realistic three year framework and fiscal projections.

Notes

1. The New Zealand Fiscal Responsibility Act goes even further by, in addition, committing government to make public its long- term fiscal objectives and to pursue policies which are consistent with maintaining crown debt at

a prudent level and with a reasonable degree of predictability about the level and stability of tax rates in future years.

2. It is less than half of the national average of 2000 m³ per capita.
3. GoR (2010) State Water Policy, February, State Water Resource Planning Department; GoR (2012-17) The 12th Plan Working Group Report (2012-17), Water Resource Department.
4. The state is in the process of enacting a new law on management of water resources. National Law University (Bangalore) has prepared the draft statute for GoR. This new law will ensure, among others, public participation in the decision making process for the water sector.
5. Laying the foundation means strengthening budget execution procedures. It means strengthening the role of both internal and external audit agencies. Basically, it means the publication of quarterly budget execution reports using the same classification as the one presented in the budget and the publication of external audit reports, both of which have to be underpinned by sanctions against misappropriations of resources. Indeed, these measures have to be taken as indicators of a government's real political interest in improving budget execution.
6. Budget comprehensiveness is the extent to which the budget takes account of all public expenditures, including donor funds, off-budget accounts, and user fees, matters a great deal for the relevance of the MTEF. If large proportions of public resources and expenditures are left out of the budget, the MTEF would have limited value.

References

- Anipa, Seth, Felix Kaluma and Elizabeth Muggeridge (1999) "MTEF in Malawi and Ghana" Woodstock: Consulting Africa, Ltd.
- Boex, L. F. Jameson, Jorge Martínez-Vázquez and Robert M. McNab (2000) "Multi-Year Budgeting: A Review of International Practices and Lessons for Developing and Transitional Economies" *Public Budgeting and Finance* Summer: 91-112.
- Brooke, Peter (1999) "Creating Budget Incentives for Better Performance and Better Budgetary Control" *Good Practice in Public Expenditure Management Conference Oxford, UK*.
- Campos, Ed and Sanjay Pradhan (1996) "Budgetary Institutions and Expenditure Outcomes" *Policy Research Working Paper No. 1646*.
- Dean, Peter N (1997) "Medium Term Expenditure Frameworks: Improving their Chances of Success with Particular Reference to Selected African Countries"
- Foster, Mick and Felix Naschold (2000) "Expenditure Framework and Partnership" *OED Working Paper Series No.9*, World Bank (www.worldbank.org/html/oed).
- GoR (2010) State Water Policy, State Water Resource Planning Department (available at <http://waterresources.rajasthan.gov.in/StateWaterPolicy/StateWaterR%20Policy%20Eng..htm>).
- GoR (2010) *State Water Policy* State Water Resource Planning Department, February.
- GoR (2011) *Twelfth Plan Working Group Report (2012-17)* Water Resource Department.
- GoR (2012) 12th Plan Working Group Report (2012-17), Water Resource Department.
- GoMP (undated) Manual for Preparation of MTEF: Water Resources Department (accessed from www.mp.gov.in/difmp/spmg/MTEFManual_WRDpdf).
- Holmes, Malcolm and Alison Evans (2003) A Review of Experience in Implementing Medium Term Expenditure Frameworks in PRSP Context: A Synthesis of Eight Country Studies, ODI, London, November (discussion draft) (accessed from www.odi.org.uk/resources/docs/2157.pdf).
- Houerou, Philippe Le and Robert Taliencio (2002) Medium Term Expenditure Frameworks: From Concept to Practice, Preliminary Lessons from Africa, World Bank: Africa Region Working Paper Series No. 28, February.
- International Monetary Fund (1999) *Manual on Fiscal Transparency* Washington DC.
- IPE Global (2012) *Water Sector in Rajasthan, Medium Term Expenditure Framework (2012-13/2014-15)* Draft Report submitted to State Water Resource Planning Department, Government of Rajasthan.
- Jones, Stephan P (1997) "Sector Investment Programs in Africa" *World Bank Technical Paper No.374*, World Bank.
- Jones, Stephen P and Andrew Lawson (2000) "Moving from Projects to Programmatic Aid" *OED Working Paper Series, No.5*, Summer, World Bank (www.worldbank.org/html/oed).
- (2000) "Medium Term Expenditure Frameworks: Panacea or Dangerous Distraction?" *Oxford Policy Management* (<http://www.opml.co.uk/paper/medium-term-expenditure...>) paper 2, May.

- Kasek Leszek and David Webber eds. (2009) "Performance-Based Budgeting and Medium-Term Expenditure Frameworks in Emerging Europe" in World Bank *Current Issues in Fiscal Reform in Central Europe and the Baltic States 2008* series, World Bank, Warsaw Office, Poland.
- Kostopoulos, Christos (1999) "Progress in Public Expenditure Management in Africa: Evidence from World Bank Surveys" *Africa Region Working Paper Series*, No. 1.
- Merk, Olaf (2006) *Medium-Term Expenditure Frameworks in MENA Countries* OECD, Working group 3, GfD, May 7-8, Cairo (accessed from www.oecd.org/dataoecd/50/62/37177017.pdf).
- Muggeridge, Elizabeth (1999) "The MTEF, Donor Coordination, and Flexible Funding" Woodstock: Consulting Africa, Ltd. Ms.
- Moon, Allister (2001) "Linking Planning, Policy and Budgets: Experience with MTEFs" Public Expenditure Analysis and Management Seminar, May 22-24 (Slides).
- ODI (2005) *Linking Policies and Budgets: Implementing Medium Term Expenditure Frameworks in A PRSP Context* ODI Briefing Paper, June.
- OPM Review (2000) *Medium Term Expenditure Frameworks: Panacea or Dangerous Distraction?* OPM Review May.
- Pricewaterhouse Coopers (2010) *MTEF for Water Resources Department: 2010-11 Update* Long term consultancy under DFID Assisted Strengthening Performance Management in Government Programme, July (accessed from www.mp.gov.in/difmp/spmg/MTEFWRD2010-11Report.pdf).
- Prins, Ludo (2006) *Water Sector Support Programme* Programme Management Support: Medium Term Expenditure Framework, EuropeAid/121282/D/SV/Ws, Accounting no.9-ACP-WSO-04, May (accessed from www.mnre.gov.ws/documents/projects/water/.../MTEFREport.pdf).
- Reddy, V. Ratna (2010) *Water Sector Performance under Scarcity Conditions: A Case Study of Rajasthan, India*. Ms.
- Republic of Kenya (2011) *Medium Term Expenditure Framework: 2011/12- 2013/14* Environment, Water and Irrigation Sector Report 2010, Final Draft, January (accessed from www.treasury.go.ke/---/255-environmentwater-and-irrigation-sector-report_2011.pdf).
- Republic of South Africa (2011) *Medium Term Expenditure Guidelines: Preparation of Expenditure Estimates for the 2012 Medium Term Expenditure Framework* National Treasury, July (www.treasury.gov.za.publications/guidelines).
- Schiavo- Campo, Salvatore and Daniel Tommasi (1999) *Managing Government Expenditures Manila*: Asian Development Bank.
- Short, John (2003) *Country Case Study 4: Assessment of the MTEF in Ghana* ODI, May (accessed from www.odi.org.uk/resources.docs/2169.pdf).
- Stasavage, David and Dambisa Moyo (2000) "Are Cash Budgets a Cure for Excess Fiscal Deficits (and at What Cost)?" *World Development* 28 (12): 2105-2122.
- Von Hagen, Jurgen (1992) "Budgeting Procedures and Fiscal Performance in the European Communities" *Economic Papers, Commission of European Communities* No. 96.
- World Bank (1996) *Fiscal Management in Russia* Washington, DC.
- (1998) *Public Expenditure Management Handbook* Washington DC.
- (2000) "Guidelines for Public Expenditure Analysis and Support" Ms.
- (2001) "Public Expenditure Management and Accountability: Evolution and Current Status of World Bank Work" PREM Network, Operation Policy and Country Services Network, Ms.
- and International Monetary Fund (2001) "Tracking of Poverty-Related Public Spending in Heavily Indebted Poor Countries (HIPC)" Ms.