

Medium Term Expenditure Frameworks and Economic Management and Sustainability in Africa: Nigeria in Perspective

Osirim Monday and Wadike Chile George

Department of Accountancy,

Ken Saro Wiwa Polytechnic, Bori, Nigeria – Ph.D Candidate,

Ignatius Ajuru University of Education, Port Harcourt, Nigeria

Abstract

A common condition of governance in most Africa countries including Nigeria is a lucid disconnect between policy making and effective planning on one hand and of course budget management systems and processes on the other hand. Medium Term Expenditure Frameworks (MTEFs) was introduced in the 1990s and 2000s by most Africa countries to proffer solution to this disconnect. This paper is therefore an endeavour to explicate, analyze and assess the anticipated impact of MTEFs in theory and practice as it relates to public financial and economic management in Nigeria. The meet the objective of the study, the survey research design was adopted. Questionnaires were designed and administered to various government officials to elicit their opinions on the implementation of MTEFs and its impact on public financial and economic management. Data from published documents, government reports and press statements were also used to corroborate the analysis. Findings indicated a general weak performance of the medium term expenditure frameworks (MTEFs). Its recent introduction, weak budget formulation as well as implementation may be responsible for this outcome. The study therefore concludes that medium term expenditure frameworks have not improved revenue mobilization, fiscal responsibility and accountability as well as sustainable debt management in Nigeria. On the basis of the result, it was thus recommended that MTEFs as potential value added public expenditure management (PEM) toolkits, should as a matter of urgency be re-crafted and redirected for effectiveness. Furthermore, it should be integrated into the budget preparation and management process from the outset and its forecast should be incorporated in the budget document.

Keywords: Strategic Paper; Economic Management; Medium-Term; Public Financial Management, Public Sector Organisations.

INTRODUCTION

Conceptually, Medium Term Expenditure Frameworks (MTEFs) are one of the macroeconomic and fiscal tools for economic growth and sustainability. They are trends and toolkits in developing countries public expenditure management (PEM). MTEFs involve the “estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources in the context of the annual budget process” [1]. They are instruments for translating Poverty Reduction Strategy and Growth Facilities (PRSGF) into public expenditure programmes within a logical multiyear (3-5 years) macroeconomic and fiscal plan. MTEFs are aimed at improving economic performance and social status of the people. It contextualizes a multiyear (3-5) perspectives in the wider budgetary control and decision making of government. As annual rolling 3-year expenditure planning, it sets out the medium term expenditure priorities and budget constraints against which sector plans can be developed and refined. This 3-year planning tool not only define government economic directions, but also

set out vividly the social and development objectives and priorities of government and the strategic thinking that is required to achieve the defined objectives [2].

Since the middle and to late 1990s, many Africans and other developing countries have been striving to adopt and implement the MTEFs concept. This macroeconomic model indicates the fiscal targets of governments in terms of estimated revenues and expenditures and other government commitments in the medium term of 3-5years. MTEF is a key element of the Federal Government of Nigeria public expenditure management (PEM) reform programmes. The process will normally involve the projections of the aggregate resources, cost estimates of sector programmes and a political-administrative process that integrate both the resource aggregation and cost estimates of sector programmes.

According to the World Bank, a comprehensive MTEF will pass through these six stages, namely.

- i. Development of macroeconomic and fiscal framework – projecting revenues and expenditures in the medium term.
- ii. Development of sectoral programmes – agreeing on sector objectives, activities, outputs, reviewing, developing programmes, sub-programmes and programmes cost estimation.
- iii. Development of sectoral frameworks - building consensus on strategic resources allocation. The disconnect between policymaking, planning and budgeting processes are fused in this stage.
- iv. Definition of sector resources allocation - setting medium term sector budget ceilings (Cabinet approval).
- v. Preparation of sectoral budgets - preparing the medium term sectoral programmes based on budget ceilings.
- vi. Final political approval – presenting the budget estimates to cabinet and parliament for approval [2].

MTEFs operate best when budgets are developed using a programme budgeting methodology. MTEFs are to result in better spending and service delivery, they need to be well integrated with, and complemented by, improvements in other public policy and management processes [3].

Problem of Study

Over the years, there has been a missing link between policymaking, planning and budgetary processes in Nigeria. MTEFs were therefore introduced with the perception that it will allow expenditure of government to be driven by policy priorities and budget realities. This line of thought is line with the assertion made by the World Bank that MTEFs provides the linking framework that allows expenditure to be driven by policy priorities and disciplined by budget realities [1]. The MTEF pays much attention to the issue of budget formulation and not on budget implementation and reporting. It does not really cover the issues of budget comprehensiveness. It is argued that MTEFs have performed poorly and thus failed in Nigeria with respect to oversight function and the use of sectoral performance indicators (SPI). The adoption and implementation of MTEFs has not been a smooth sail in Nigeria as it is poorly developed and super imposed on a weak political and economic structure. Besides, the Public Expenditure Management (PEM) system is in comatose. This has made attainment of MTEF objectives a mirage. Data limitation is another serious issue in the effective implementation of the Medium Term Expenditure Framework. Nigeria has not produced or published a regular expenditure execution report. Besides, there are submissions that MTEFs and the annual budgets are parallel exercise. This charge should be evaluated and placed in the right perspective. Though MTEFs are seen

by some schools of thoughts as ideal toolkits for incorporating Poverty Reduction Strategy Papers and Growth Facilities into public expenditure programs, however, there is dearth of information with respect to the analysis and actual performance of MTEFs adoption and implementation in Nigeria. This is due in part, to the fact that the adoption and implementation of MTEFs in Nigeria is relatively new [3].

In this paper, the anticipated value added benefits (VAB) of the MTEFs technique and the technical capacity of Nigeria to run the MTEF models and the meaningful integration of MTEF into the budget process are to be extensively considered and discussed. Importantly, effectiveness and efficiency in the disbursement of public funds and other resources are teething issues that have not been practically addressed but need to be considered in the Medium Term Expenditure Framework and Strategic Plan.

Objectives of the Paper

The specific objectives of this paper are to:

- i. Analyze the influence of medium term expenditure framework on improved revenue mobilization in Nigeria.
- ii. Evaluate the influence of medium term expenditure framework on improved fiscal responsibility and accountability in Nigeria
- iii. Investigate the influence of medium term expenditure framework on sustainable debt management in Nigeria.

REVIEW OF LITERATURE

Objectives of Medium Term Expenditure Frameworks (MTEFs): MTEFs is intended to facilitate greater macroeconomic balance; improved inter and intra sectoral resource allocation; greater budgetary predictability for line ministries; and more efficient use of public monies [1]. Greater macroeconomic balance including aggregate fiscal discipline may be achieved through reliable forecast of the available resources, which could be depended upon in budget formulation. MTEFs endeavours to promote effective resource distribution by ministries and agencies. It will help to prioritize government programs/projects and the allocation of resources with strategic priorities to the most credible and crucial ones. It is also aimed at optimizing public expenditures in terms of values for money. This will no doubt lead to more political accountability and fiscal transparency of public expenditure.

MTEFs in Practice in Nigeria

The prescriptive advice on MTEFs in Nigeria has been more conceptual than practical. At the conceptual level, Nigeria does not have much problem. However, the design and management of the MTEF reforms at the operational

level is fraught with challenges as it is adopted to fit the institutional and political peculiarities of the country. At the conceptual level, expected aggregate revenues and sectoral expenditures are forecasted and political and administrative process is set in motion to integrate anticipated resources and cost estimates of sector activities. However, the operational guidelines for design and executing the MTEFs are ambiguous as there is doubt as to where it fits with the existing budget process [4]. The type and level of detailed information to be incorporated in sectoral expenditure framework are matter of permutations/guesswork. How can they be meaningfully integrated in the budget process? This big question has been asked overtime but no clear answer has been provided.

Nigeria has issue of integrating the MTEF with the existing budget process. The MTEF is perceived to be operating in parallel with the budget. This has caused confusion and has undermined MTEF and the budget process. To mend the fence, the MTEFs developed should be integrated or built into the annual budget process from the beginning as part of the reforms agenda of the government. Parallel budget and MTEFs processes should be avoided [5].

In Nigeria, the Ministry of Finance works in collaboration with the Minister of Budget and National Planning to issue the MTEF, which is then approved by the Federal Executive Council and sent to the National Assembly. Approval of the National is very important as it gives the MTEF much high profile status, a high priority and some sorts of legal backing.

The process of MTEF formulation and management should be standardized in Nigeria in terms of organizational structure and sectoral outputs. Lack of standard will complicate the MTEF process as some minister may present costs at general programme levels while others at an organizational structure level. They may use their own expenditure classification systems, which are not consistent with the national budget classification system. Sectoral plans can be standardized. Therefore, SEFs should be developed to agree with a set of guidelines/standards that should be published, having a realistic timetable and based on capacity limitations. The National Assembly exercises oversight function over the budget and MTEF processes to ensure that key government priorities and programmes (KGPP) are actualized [6].

Table 1. MTEFs in West African: General design Features

Countries	Year Intro.	Scope	Format	Tiers of Govt.	Periodization	Budget Process Status
Ghana	1996	Nominally all sectors included	Economic, function & organizational classification	Primarily Central Govt	3 years	- MTEF is formally part of budget process - Not subject to formal approval by parliament and cabinet
Guinea	1997	Not all sectors are included (Only recurrent expenditure is covered)	Economic & functional classification	Primarily Central Govt	3 years	- Nominally part of the budget process - Not subject to formal approval by either Parliament or Cabinet
Nigeria	2007	All sectors included covers both recurrent & capital expenditure	Economic, functional & organizational classification	Primarily Federal Govt	3 years	- MTEF is formally part of budget process -To be considered for approval with such modifications if any by each house of the National Assembly (Sec. 11 (2) Act No. 31 2007.

Generally, MTEF covers all sectors in Nigeria. Expenditures include Recurrent and Capital, the format includes economic, functional and programme classification, and the length of period is usually 3 years. Technically, reasonable projections and forecasting is performed and sectoral expenditure framework (SEF) programme-based and aggregate levels are carried out. Organizationally speaking, it is approved by the National Assembly and partially integrated into the budget process. The Fiscal Responsibility Act, 2007 under Part II made provision for the establishment of the Medium Term Expenditure Framework. Section 11 Part II of the Fiscal Responsibility Act No. 31 of 2007 states “ The Federal Government after consultation with the States shall

not later than 6 months from the commencement of this act, cause to be prepared and laid before the National Assembly, for their consideration a Medium-Term Expenditure Framework for the next three financial years; and thereafter, not later than four months before the commencement of the next financial year, cause to be prepared a medium-Term Expenditure Framework for the next three financial years” [7]. Section 11 (3), The MTEFs shall contain a macro-economic framework setting out the macro-economic projections for the next three financial years, the underlying assumptions for those projections and an evaluation and analysis of the macroeconomic projections for the preceding three financial years. MTEF shall also contain a Fiscal Strategy Paper setting

out the Federal Government's medium term financial objectives, the policies of the Federal Government for the medium term relating to taxation, recurrent (non-debt) expenditure, debt expenditure, capital expenditure, expenditure, borrowings and other liabilities, lending and investment, social development priorities, etc. It also contains an expenditure and revenue framework and a consolidated debt statement setting out and describing the fiscal significance of the debt liability of the federal government and measures

to reduce any such liability (Section 11 (1) b and c and d, Fiscal Responsibility Act, 2007) [7].

Section 13 (1) states that "in preparing the MTEF, the Minister may hold public consultation, on macro-economic framework, the fiscal strategy paper, the Revenue and Expenditure Framework, the strategic, economic, social and developmental priorities of government and such other matters as the Minister deems necessary" [7].

2017 – 2019 MTEF and Fiscal Sustainability Paper

Table 2. Major assumptions underlying the MTEF/FSP for 2017 – 2019

Items	2017 Fiscal Year	2018 Fiscal Year	2019 Fiscal Year
Oil production volume projection (million bpd) (million barrel per day)	2.2	2.3	2.4
Benchmark (reference) price for crude oil (US\$/barrel)	42.5	45.0	50.0
Gross domestic product growth rate (GDP %)	2.5	4.26	4.04
Average exchange rate (\$1= N)	305	305	305
Average inflation rate (Inflation rate %)	15.74	11.88	12.57
Projected independent revenue (trillion N)	807.57	N/A	N/A
Planned borrowing (trillion N)	3.321	N/A	N/A
Planned expenditure (billion N)	500.0	N/A	N/A

Source: MTEFs projection 2017-2019

In order to achieve the medium term expenditure framework from year 2017 to 2019, the Federal Government of Nigeria devised a fiscal plan of adopting a Zero Based Budgeting (ZBB) system which was introduced into the Nigerian budget environment in 2016. The essence of its introduction and adoption is to ensure that only projects and programs, which align with the economic policies of the government, are executed.

The plan also intends to improve revenue mobilization from non-oil sector and a sustainable debt profile. It is stated in the framework that the government would continue with the public finance management reforms. In addition, emphasis shall be placed on enhanced accountability and transparency, sustainable debt management which remains within statutory threshold of 3% of GDP as stipulated by the Fiscal Responsibility Act, 2007.

Conceptual Framework

Predictor variables

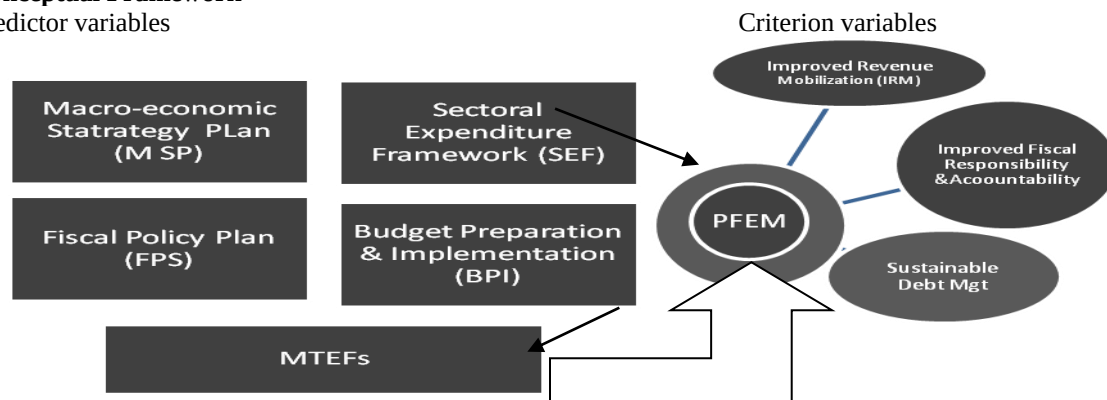


Figure 1.1: Block list of the predictor and criterion variables

Theoretical Framework

This paper is anchored on the new public management theory to explore the relationship between medium term expenditure framework (MTEF) and Economic management and sustainability.

New Public Management Theory

This is a theoretical framework of bureaucratic public governance reforms introduced by Hood in 1991 [8]. It is a public policy theory, which connotes the method of change by which administrative, and bureaucratic reforms are introduced over the time to create a policy change in governance and in public service. The essence is to promote accountability, probity as well as transparency in governance. “The New Public Management of asset theory is administrative practices constituting fad and a body of theory. As a body of theory, it interprets recent development in public administration and practices. It is perceived as part of the massive intrusion of capitalist free market values in public administration and governance” [9]. Hood argued persuasively that researchers should pay more attention to New Public Management (NPM) as a theory than as a fad [8].

METHODOLOGY

The cross-sectional survey research design was adopted in this study. The target population of the study consists of the federal ministry of finance, the office of the accountant general of the federation, the budget and planning department in the Presidency and the Central Bank of Nigeria and states ministries of finance. The study purposively selected 600 as the population of the study upon which questionnaire were to be served. In order to arrive at the optimal sample size, 5% margin of error and 95% confidence level were used. The Taro Yamani formula was used to determine the sample of 240 $(600/1+600(0.05)^2)$. To add value to the work and

to achieve the purpose of the study, a functional and elongated regression model was formulated as follows:

$$\text{IRM} = F(\text{MTEFs}) \quad (1)$$

Equation 1 is elongated regressionally as follows;

$$\text{IRM} = \beta_0 + \beta_1(\text{MSP}) + \beta_2(\text{FPS}) + \beta_3(\text{SEF}) + \beta(\text{BPI}) \quad (2)$$

$$\text{IFRS} = \beta_0 + \beta_1(\text{MSP}) + \beta_2(\text{FPS}) + \beta_3(\text{SEF}) + \beta(\text{BPI}) \quad (3)$$

$$\text{SDM} = \beta_0 + \beta_1(\text{MSP}) + \beta_2(\text{FPS}) + \beta_3(\text{SEF}) + \beta(\text{BPI}) \quad (4)$$

Where:

IRM = Improved revenue mobilization

IFRS = Improved fiscal responsibility and accountability

SDM = Sustainable debt management

RESULTS

Table 3: Percentage analysis on the influence of MTEFs on revenue mobilization in Nigeria

Response Statement	(N = 240) Responses			(N = 240) Responses			
	Response Item	YES (+) %		NO (-) %		TOTAL (+) & (-)	
MTEF has improved revenue mobilization in Nigeria	1	90	0.375	150	0.625	240	100%
	2	83	0.346	157	0.654	240	100%
	3	71	0.296	169	0.704	240	100%
	4	66	0.275	174	0.725	240	100%
	5	58	0.242	182	0.758	240	100%
Mean (x)			31%		69%		

From Table 3 as contained under the appendices, it is observed that 31% of respondents agreed that MTEF influences revenue mobilization in Nigeria while a greater percentage of 69 disagreed. This result also reflected on mean values of .3068 (predictor) with a standard deviation of 0.5365 and .6932 (criterion) with a standard deviation of 0.5365.

	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Predictor	.24	.38	.3068	.02399	.05365	.003
Criterion	.63	.76	.6932	.02399	.05365	.003

Table 5: Percentage analysis of the influence of MTEF on improved fiscal responsibility and accountability in Nigeria

Response Statement	(N = 240) Responses			(N = 240) Responses			
	Responses Item	YES (+) %		NO (-) %		TOTAL (+) & (-)	
The fiscal policy plan of the government has improved fiscal responsibility and accountability	11	187	0.779	53	0.221	240	100%
	12	82	0.341	158	0.658	240	100%
	13	79	0.329	161	0.671	240	100%
	14	93	0.388	147	0.613	240	100%
	15	115	0.479	125	0.520	240	100%
Mean (x)			46%		54%		

From Table 5 as contained under the appendices, 46% of the respondents with a mean score of 0.4632 were positive that MTEF has improved the fiscal and accountability frameworks of Nigeria while 54% with a mean score of 0.5366 did not agree with the statement.

Table 6: Percentage analysis of the influence of MTEFs on sustainable debt management in Nigeria

Response Statement	(N = 240) Responses			(N = 240) Responses			
	Responses Item	YES (+) %		NO (-) %		TOTAL (+) & (-)	
There is improved sustainable debt management with the implementation of MTEFs	6	74	0.308	166	0.692	240	100%
	7	91	0.379	149	0.621	240	100%
	8	39	0.163	201	0.704	240	100%
	9	82	0.342	158	0.838	240	100%
	10	78	0.325	162	0.675	240	100%
Mean (x)			30%		70%		

From table 6 as contained under the appendices, 30% of the respondents with a mean score of 0.3034 were positive that MTEF has improved sustainable debt management in Nigeria while 70% with a mean score of 0.7060 did not agree with the statement.

Table 7 Descriptive Statistics

	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Predictor	.16	.38	.3034	.03702	.08277	.007
Criterion	.62	.84	.7060	.03592	.08033	.006

DISCUSSION

In answer to research question 1 on the influence of MTEF on improved revenue mobilization, it was observed from Table 4 that greater percentage of the respondents (69%) are of the opinion that MTEF implementation in Nigeria has not led to the desired improved revenue generation. The results of the data showed that 31% respondents were positive in their response while 69% were negative in their responses. In answer to research question 2, the results of

the data collected showed that 46%, respondents were positive in their responses that MTEF has improved the fiscal and accountability framework of Nigeria while a greater percentage of 54% were of contrary view. In answer to research question 3, the results showed that 30% respondents agreed that MTEF is a potent instrument for sustainable debt management in Nigeria. 70% of the respondents were of the opposite view

Table 8: Summary of Preliminary Impact Assessment of MTEF Implementation in Nigeria

Expected Outcomes	Actual Outcomes
Improved revenue mobilization	- No overwhelming & convincing empirical evidence to buttress this statement
Improved fiscal responsibility	- No significant improvement in fiscal discipline and accountability
Sustainable debt management	- No empirical evidence

CONCLUSIONS

The objectives of this paper were to investigate the influence of medium term expenditure framework on improved:

- revenue mobilization;
- fiscal responsibility and accountability; and
- Sustainable debt management in Nigeria.

Findings indicated a general weak performance of the medium term expenditure frameworks (MTEFs). Its recent introduction, weak budget formulation as well as

implementation may be responsible for this outcome. The study therefore concludes that medium term expenditure frameworks have not improved revenue mobilization, fiscal responsibility and accountability as well as sustainable debt management in Nigeria. The question is, will there be correlation between impact and longevity? Would there be favourable trend of MTEFs in Nigeria in the long run?

On the basis of the result, it is thus recommended that MTEFs as potential value added public expenditure

management (PEM) toolkits, should as a matter of urgency be re-crafted and redirected for effectiveness. They should be properly designed and implemented for valuable outcome. For MTEFs to be functional, a concrete budgetary management foundation must be laid. Realistic macro-fiscal projections are key success factor in MTEFs that must be considered by public policy makers. Besides, a comprehensive review of the budgetary processes must be performed and weak capacity must be strengthened before a wholesale introduction and implementation of medium term expenditure frameworks.

RECOMMENDATIONS

The findings in this paper have generated and raised research curiosity for further studies in the field of public expenditure. The paper therefore suggests a further evaluation of the effect of MTEFs on economic growth and development using time series data and a replication of this study at the State Government level.

CONTRIBUTION TO KNOWLEDGE

This paper contributes to the few existing literature on medium term expenditure frameworks and economic management and sustainability. The title is original and it deploys original and unique methodologies in validating the findings. Thus the paper will serve as a knowledge bank for students, researchers and policy makers.

RESEARCH LIMITATIONS

Medium term expenditure frameworks is still evolving as it was recently introduced; thus data on MTETs adoption and implementation is scanty and the sample size used is not large enough. Moreso, the paper is mainly focused on the Nigerian economy and it covers a period of 13 years (2007-2020). There might be a favourable trend of MTEFs implementation in Nigeria in the long run; a correlation between impact and longevity.

CONFLICT OF INTEREST

I, Osirim Monday, on behalf of the co-author, Wadike, Chile George, declare that we have no conflict of interest with this manuscript.

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