1.0 Introduction

1.1 In June 2001, the Government of Mauritius announced its economic strategy and policy orientation for the next five years in its Economic Agenda for the New Millennium. A comprehensive budget reform, the centrepiece of which is the introduction of a Medium Term Expenditure Framework (MTEF), was part of the Agenda.

1.2 MTEF is the casting of the budget on a three-year rolling basis within a sustainable macroeconomic framework. It is presented here as an integrated version, which includes a Programme-based budgeting component (also called Results-based budgeting). The current budget system, line itemization, which MTEF seeks to replace, emphasizes inputs or budgetary resources without linking them to outputs or results achieved. The integrated version of MTEF, on the other hand, is intended to focus on outputs and outcomes as a means of improving the efficiency and effectiveness of expenditures. Budgetary allocations are tied to measurable objectives while performance indicators, an inherent part of MTEF, allow progress to be measured in terms of attaining the objectives.

1.3 As budget programmes, measurable and realistic objectives and performance indicators substitute for line item, and the budget is presented within a realistic medium term framework, greater discipline is introduced in budget formulation. The sectoral allocation becomes transparent and is based on well-defined policy choices. Accountability is enhanced in the budget execution process as the Programme Manager is tied to performance and results. Public Expenditure Management is improved.

1.4 The MTEF agenda is to be implemented on a phased basis. In the first phase, Education and Training will be “converted”, followed by, in the second phase, Health, Social Assistance, Environment (including Sewerage) and Public Infrastructure (including Transport). The remaining sectors are expected to follow suit in the third and final phase. The second phase will be undertaken during financial year 2004/05. The present document marks the completion of the first phase. This is just the first step in a long and arduous budget reform process but the Government is resolute in its determination to ensure that MTEF provides a firm anchor for the conduct of sustainable fiscal policy.

1.5 MTEF requires commitment and discipline at the level of the decision making process if all of its potential benefits are to be realised, failing which the exercise would be meaningless. The successful implementation of MTEF will depend on the close collaboration of all public sector organisations and stakeholders.
2.0 Medium Term Expenditure Framework

2.1.0 The Ministry of Finance and Economic Development (MOFED) is introducing, for the first time, an integrated version of a Medium Term Expenditure Framework (MTEF). This version includes a Programme-based Budgeting (PBB) component and a three-year rolling budget presentation. Following Government decision in November 2003 to introduce MTEF, a Central MTEF Unit (CMU) was set up in the MFED to initiate the preparation of the new system and start the implementation process in a phased manner. The first phase has now been completed with Education and Training.

2.2.0 What is MTEF?

2.2.1 MTEF is the casting of the budget in a medium-term context, typically three years, on a rolling basis instead of the traditional one-year presentation.

2.2.2 There are several advantages to present the budget in a medium term context, namely:

- **predictability**: spending Ministries are better able to plan their activities on the basis of the medium-term allocation;

- **transparency and accountability**: the allocation of budgetary resources is more transparent by virtue of the fact that Government’s priorities and spending plans are clearly laid out for the next three years. The Government also becomes more accountable for its allocative choices as does the Programme Manager in terms of planned results; and

- **improved sectoral management**: line Ministries must spell out their sectoral policies and priorities over the medium term

2.2.3 The appropriation process will continue to be carried out on an annual basis, consistent with the legal requirement. MTEF will replace the traditional annual budgeting system once the “conversion” process from one system to the other is complete.

2.3.0 What is Programme-based Budgeting?

2.3.1 Programme-based Budgeting (PBB) is a method of budgeting that attempts to relate resources to results proposed and achieved. The fundamental difference between the current “line item budgeting” (LIB) and PBB is that the former emphasizes inputs whereas the latter focuses on results or outputs. In
LIB, a lot of effort is put into calculating how much a particular line item costs without looking at what exactly is being achieved. There is a deficiency in terms of clarity of purpose or aims for which the funds have been allocated or the achievements expected to be accomplished. For example, in the Capital budget, a line item would be, “Construction of School”. In PBB, that particular line item would be one among several “activities” within an overall programme. This programme could be called, “Primary Education” and would have clearly defined and measurable objectives and a number of performance indicators to allow the Programme Manager to track progress towards meeting the objectives.

2.3.2 There is a shift from excessive emphasis on costs to organization design and relevancy. The responsibilities and goals of agencies are clarified and emphasis laid on programmes and results.

2.4.0 Programme Budgeting

2.4.1 A Programme Budget typically contains the following features:

- Spending unit mission;
- Programme objectives (sometimes, “sub-programmes”, or “programme elements” may be used for refinements, but they are not essential);
- Activities (sometimes “sub-activities”);
- Programme indicators or performance measures;
- Narratives, i.e., written analyses and justification for budget requests; and
- Multiyear estimates.

2.4.2 The programme indicators are especially critical in that they allow the Programme Manager to track progress towards meeting the objectives. During the preparation process, several indicators related to cost effectiveness and efficiency of MTEF programmes such as cost per student, cost per trainee, student/teacher ratio and operating cost per employee were proposed and discussed. However, due to the unavailability of readily workable data, these indicators could not be finalised. In future phases, these indicators will be worked out in consultation with Programme Managers.

2.4.3 Some basic principles on the preparation of Programme Budgeting are provided in Appendix I.

2.4.4 Additional explanatory notes on the preparation of this document are given at Appendix II.

2.4.5 Appendix III is a list of abbreviations.
2.5.0 The MTEF Agenda and Preparation Process

2.5.1 At the initial stage of the preparation process in early 2004, several workshops took place at the two Ministries to introduce the new system and to acquaint their relevant staff with it. During the final stages, the latter actively participated in the discussions and finalisation of the programmes proposed, including the performance indicators. The dedication of the staff of both Ministries, including the relevant parastatals attached to them, made the preparation process very smooth. The positive contribution of the Central Statistics Office in terms of collecting data on the performance indicators was also a critical factor.

2.5.2 As indicated above, the budget of the two sectors namely, Education and Training, are being prescribed on the MTEF basis in FY 2004/05. In a second phase, Health, Social Assistance, Environment (including Sewerage) and Public Infrastructure (including Transport) have been earmarked to undergo the transformation process from a line item to a programme based system. The remaining departments are expected to follow suit in the third and final phase. The second phase is expected to be undertaken during financial year 2004/05.

2.6.0 Conclusion

2.6.1 MTEF is a useful instrument in public expenditure management. It has the potential to bring about significant improvements in the way a budget is formulated, executed and monitored, provided, *inter alia*, the discipline that it imposes is strictly adhered to.
Medium Term Expenditure Framework
and Other Budgeting Concepts

What are the differences, if any, among some of the main concepts of budgeting, namely MTEF, Programme-based budgeting (PBB), Results-based budgeting (RBB) and Performance-based budgeting? What is Zero-based budgeting?

MTEF and Programme-based budgeting: In its initial meaning, MTEF means casting the budget on a three-year rolling basis. As explained in the main text, there are many virtues to present the budget in a medium term framework. The concept has evolved over time beyond its initial meaning to become synonymous with Programme-based budgeting. Today, MTEF is used, by some people, to actually mean Programme Budgeting. It is clear, however, that a budget can be presented on a three-year rolling basis without incorporating a PBB component. Similarly, a budget can be presented on the basis of programmes without necessarily being cast on a three-year horizon.

Programme-based budgeting and Results-based budgeting are one and the same thing as Programmes are prepared on the basis of expected results. As underlined in the main text, it is the link between allocated resources and expected results that differentiate Program budget and line budget Itemization.

Performance-based budgeting and Programme-based budgeting: There is a difference of views as to whether Performance-based budgeting has the same meaning as Programme Budgeting. Many people seem to think that the two concepts are identical. However, some authors, argue that Performance-based budgeting puts far more emphasis on costs than RBB/PBB.

Performance budgeting “shows what a government has accomplished with the available resources and it emphasizes the end products of government programmes and begins where programme budgeting ends. The difference between performance and programme budgeting is that while the latter is essential and considered in relation to a higher level of organization for purposes of review and decision-making, the former seeks to measure the cost and accomplishment of detailed activities in terms of end products and things done.”

Performance budgeting puts an excessive emphasis on costs compared to Programme budgeting which focuses on results defined and achieved.

Another not unrelated concept is Zero-based budgeting. Two questions are raised in the Zero-base approach to budgeting:

- Are current activities carried out by Government efficient and effective?
- Should the current activities be eliminated or reduced to give way to higher priority new programmes and activities?

Zero-based budgeting entails therefore the evaluation of all programmes and activities at the time of budget preparation.

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