



United Nations
Educational, Scientific and
Cultural Organization

UNESCO Bangkok
Asia and Pacific Regional Bureau
for Education



Asia-Pacific
Education System Review Series

Education MTEF:

Approaches, Experience and Lessons
from Nine Countries in Asia



*Asia-Pacific
Education System Review Series No. 3*

**Education MTEF:
Approaches, Experience and
Lessons from Nine Countries
in Asia**

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Published by UNESCO Bangkok
Asia and Pacific Regional Bureau for Education
Mom Luang Pin Malakul Centenary Building
920 Sukhumvit Road, Prakanong, Klongtoey
Bangkok 10110, Thailand

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ISBN 978-92-9223-351-8 (Print Version)
ISBN 978-92-9223-352-5 (Electronic version)

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Printed by Advance Printing Service Co., Ltd.

Printed in Thailand
EPR/10/OS/033-800



Preface to the Series

The Asia-Pacific Education System Review Series is published by the Education Policy and Reform Unit of UNESCO Bangkok and aims to summarize what is known, based on research, about selected contemporary policy issues relating to the national education systems of countries in the Asia and Pacific region.

The series is the successor of the Asia-Pacific Secondary Education System Review Series, initially launched with the generous financial support of the Government of Japan. Following the success of the previous series with two booklets (the first on examination systems and the second on access to secondary education), UNESCO Bangkok has decided to enlarge the scope of the series to carry a number of compendiums on key policy issues from a sector-wide perspective. Therefore, while the secondary education sub-sector will remain one of the focused areas, the series will also look at other sub-sectoral and thematic issues, as well as sector-wide planning, financing and management aspects of education systems.

The format of the booklets has been designed to serve as rapid and credible reference material for education planners, managers, and policy makers, offering busy readers (a) an overview and quick analysis of pertinent issues in education across the Asia-Pacific region, (b) a choice of approaches and options to address issues, based on experiences of countries in the region, and/or (c) a set of recommendations or guiding questions to consider when preparing a sector or sub-sector review and reform. The booklet series will thus continue to provide practice-oriented guidance for those engaged in the review of existing education policy and systems as well as in the formulation and implementation of reforms related to the specific topic that each booklet will be addressing.





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List of Abbreviations

| | |
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| BAPPENAS | National Development Planning Agency, Indonesia |
| EFA | Education for All |
| EMIS | Education Management Information System |
| FTI | Fast Track Initiative |
| GDP | Gross Domestic Product |
| GFS | Government Finance Statistics |
| GNI | Gross National Income |
| GNP | Gross National Product |
| IMF | International Monetary Fund |
| KBO | Key Budget Organization |
| MDG | Millennium Development Goals |
| MOE | Ministry of Education ¹ |
| MOF | Ministry of Finance |
| MPI | Ministry of Planning and Investment |
| MTBF | Medium-Term Budget Framework |
| MTEF | Medium-Term Expenditure Framework |
| MTFF | Medium-Term Fiscal Framework |
| OECD | Organization for Economic Co-operation and Development |
| PBB | Performance-Based Budgeting |
| PFD | Planning and Finance Department |
| PFM | Public Financial Management |
| PTR | Pupil-Teacher Ratio |
| SWAp | Sector-wide Approach |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| ZBB | Zero Based Budgeting |

¹ Ministries of Education have different names in different countries depending on their span of responsibilities. Ministry of Education has been used as a general name.



Acknowledgements

This paper was written by Grayson Clarke, based on case studies on education financial planning in nine countries in Asia commissioned by UNESCO Bangkok in 2008 and 2009. The case studies were funded by the Japanese government through Japanese Funds-in-Trust for which acknowledgement is made.

The paper was prepared under the supervision of and coordinated by Le Thu Huong, Programme Specialist, Education Policy and Reform Unit, UNESCO Bangkok. Members of the review team within UNESCO Bangkok also included Gwang-Chol Chang, Toshiyuki Matsumoto, Satoko Yano and Megan McCarthy. The contributions made by the reviewers improved earlier drafts of the publication.





Foreword

To ensure that education sector priorities and reforms are implemented, countries not only need to cast their policies in their long- and medium-term development plans, but also to underpin them with realistic and thorough financial planning. This can be made possible by aligning national education plans with a multi-year budgeting and expenditure planning process. In practice, however, policy makers and education planners often find it challenging to link education plans with public sector finance planning and budgeting processes. Consequently, attempts to implement and sustain reforms in the education sector have often achieved mitigated results as governments are unable to secure adequate public resources for the education sector.

Medium-term expenditure frameworks (MTEFs) in the education sector may provide a solution to address this challenge. By reviewing the processes and experiences of Asian countries in medium-term budget planning for the education sector, this paper unveils a number of issues typically faced by countries in implementing MTEF. Its findings and conclusions have been informed mainly by the case studies commissioned by UNESCO Bangkok on MTEFs in education, but they also draw on evidence from other sectors and in other parts of the world. As such, this paper provides the lessons learnt by countries implementing MTEF; and practical thoughts on the implications of its implementation in different country contexts. Moreover, it proposes solutions that ministries of education may consider to optimize the potential benefits of MTEFs.

This paper is aimed at professionals working in education planning and finance, providing readers with (i) a summary of the basic concepts of the MTEF process, (ii) an overview of how MTEF has been developed and implemented in the education sector in different country contexts in the region, (iii) mapping of the issues typically faced by those countries in its implementation, and (iv) recommendations for how ministries of education can engage with the MTEF process more fruitfully. The case studies and this paper are freely available for download from the UNESCO Bangkok website, and printed copies are available upon request.

It is hoped that this paper and the related country case studies will provide countries in the Asia-Pacific region with stronger knowledge and evidence about MTEF in the education sector and, thereby, contribute to an informed decision-making for the design and implementation of their education policies and reforms.



Gwang-Jo Kim
Director
UNESCO Bangkok

Executive Summary

One of the most important aspects of the new public management paradigm which has occurred since the start of the 1990s has been the emergence of medium-term financial planning. For the government budget as a whole these are known as Medium-term fiscal frameworks (MTFFs) and for individual government sectors Medium-term expenditure frameworks (MTEFs). As the selection of case studies in the UNESCO series, *Education Financial Planning in Asia: Implementing Medium-Term Expenditure Frameworks*, shows, this is a development that has occurred at almost the same time in developed and developing economies, and often irrespective of the capacity of the individual governments concerned.

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

The first concept is introducing a more rigorous cost analysis of government expenditure to establish the baseline budget. This involves understanding the cost structure and drivers in the government's budget and, in particular, how expenditure moves in relation to demographic, economic and societal changes. It also requires estimating the current and future costs of existing government policy commitments, which will influence the baseline budget, and making accurate and realistic calculations of new policies and projects.

The second concept is that of policy performance monitoring and evaluation, understanding what has and has not worked and what needs to be achieved. This involves a system of performance measurement, the definition of clear objectives, meaningful indicators and targets to measure progress against those objectives and a rigorous process of follow-up and review.

The third concept is that of identifying and forecasting the amount of resources that would be available to implement new policies and programmes. This is sometimes referred to as the "fiscal space" or the amount of resources within the budget that can be reallocated to

new programmes. Fiscal space is created on the one hand through economic growth, which increases revenues, and on the other by shifting resources from existing programmes that are not effective, which reduces expenditure. This allows adequate and reliable funding to be reallocated to implement new initiatives.

Education is a popular sector for the application of the MTEF approach. One important reason is its size and importance in the national budget. Education generally consumes anywhere between 15 and 25 per cent of the national budget and 3 to 5 per cent of GDP. A second reason is that education is a sector where resource inputs can be more easily related to outputs, even outcomes, than the other sectors such as agriculture.

As the case studies¹ show, however, the successful implementation of MTEFs in the education sector (and indeed in other sectors) has been patchy. Where the process has strong political commitment and effective organizational leadership, and builds on a strong annual budgeting and resource allocation framework, progress can and has been good. Unsurprisingly, it is the developed countries in the region (Republic of Korea and Singapore) that have implemented MTEF most strategically and to the best effect. However, the case studies of Nepal and Viet Nam also show that important improvements have been made in developing countries, and that all the countries can achieve better results if strong political engagement, high technical capacity and good financial systems are in place.

The MTEF approach started in an era of growing budgets for education in both developed and developing countries. It will be a real test of the MTEF to see how education systems cope with the need to achieve short-term cuts in government budgets in the context of declining revenues and increased financial constraints. It would certainly be useful to review the cases in four years' time to assess the status and impact of the MTEFs. However, it is likely that whatever the short-term disturbance, the MTEF approach will continue to be rolled out.

1 The main source material for this review has been the nine country case studies on Implementing Medium-Term Expenditure Framework commissioned by UNESCO Bangkok for Mongolia, Republic of Korea, Thailand, Tajikistan, Nepal, Viet Nam (published) and Indonesia, Singapore and Cambodia (unpublished).

If the benefits of MTEFs are to be realized in education as they have been proven thus far, ministries of education need to engage with the process in the ways described in some detail in Section 5 of this paper. Ministries of education need to engage MTEF on a *political level*: policy prioritization is fundamentally a political process informed by economics, not the other way round. They need to engage with it on an *organizational level*: they need to work on expanding their effective degree of influence. They also need to work in co-operation rather than competition with ministries of finance. Finally, they need to *invest in technical capacity* in terms of staff numbers, quality and training, and as a first priority work on strengthening the ministry's involvement in the annual budgeting process including adequate resource provision for their own finance and planning departments.

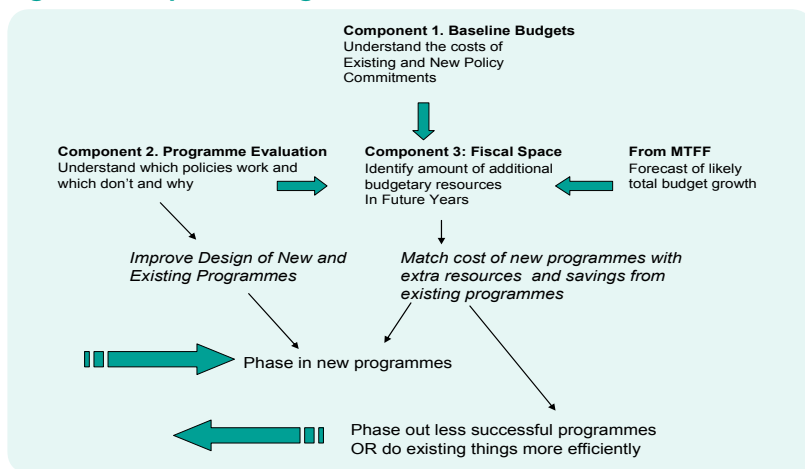
Section 1:

What is MTEF?

The MTEF is a rolling plan of budgets constructed for each year of a future time frame, usually between three and five years. Strictly speaking, in most countries they are not budgets in the legal sense, as only annual budgets are prepared and passed by parliaments. Therefore, only the first year's budget of the MTEF may have legal force. Nevertheless, in some countries the outer year budgets form legally binding aggregate and sector expenditure ceilings for years two and three (for example in Sweden). In Singapore there is a one year budget (passed in the Annual Supply estimates) but a five year block allocation based on a smoothed proportion of GDP from which ministries can negotiate their annual allocation.

The MTEF process is summarized in Figure 1. It consists of three distinct but related components.

Figure 1: Simplified Diagram of the MTEF Process



Component 1: Calculating Baseline Budgets

Preparing budgets for each year of the medium-term allows policy makers to examine the financial impact of three distinct changes. The first set of changes derive from demographic and societal developments, such as rural to urban migration, which have major implications for the organization and delivery of education services.

The second set of changes comprises those that arise from the implementation of existing policy commitments. These include, for example, the capital cost of concluding projects already started and maintaining new buildings and related facilities, the incurred recurrent costs in terms of staff running expenses, and maintaining given class sizes, pupil-teacher ratios or levels of subsidies to pupils in government or private schools. These two sets of changes comprise what is called baseline expenditure, i.e. a trend based on a no change scenario.

The third set of changes relate to the decision to implement new policies and projects. An unapproved policy or unfunded policy (including unfunded legislative commitments) should not be considered as baseline expenditure. Trade-offs between well and less performing policy options are also discussed with a view to allocating cost savings to new priorities, as described below in Component 2.

New policies and programmes need to be carefully and realistically weighed and budgeted taking account of the likelihood of economic growth, inflation and cost overruns for long and complex projects.² The preparation of multiyear estimates involves careful estimation of trends on demography, entitlements and demands. It involves taking a realistic view of the costs of completing complex multiyear projects including countering what is often known as optimism bias: this is the temptation to budget at the minimum achievable cost rather than taking into account the reality of cost overruns. It also involves complex analysis of changes in demand to multiple change factors, such as increasing the length of schooling in a particular sub-sector such as primary education and reducing or abolishing school fees. The calculation of realistic baseline expenditure is essential to understanding how many additional resources may be available for new programmes.

Component 2: A Performance Management System

Like many public services, the demands for more and ever higher quality education are almost infinite and need to be reconciled against limited public resources – the so-called hard budget constraint or ceiling. The process of mediating between claims from different parts

2 Several OECD countries have produced guides to capital and project costing which are available on the Internet e.g. the United Kingdom's Green Book available at www.hm-treasury.gov.uk/data_greenbook_index.htm (accessed 13 August 2010).

of government on limited public resources has led to the second key component of the MTEF process namely a focus on evaluating the relative performance of programmes within each sector (for example, between primary and secondary education) and between sectors (education as opposed to health or social security) as one of the ways to determine future resource allocations.

This performance-oriented process demands significant technical sophistication. It involves classifying government expenditure into a manageable number of programme categories for which the target group of beneficiaries can be clearly identified and realistic objectives set. It means setting up meaningful technical arrangements to measure performance which may appear straightforward but often present difficult definitional/measurement issues, for example, defining what constitutes enrolment in less developed countries where children often drop out or do not attend part of the year in order to help with the family business. It means investing in management information systems to provide accurate and timely measurement against these indicators.

This performance focus does not try to crystallize net public benefit of each programme into a single monetary value or high-low monetary range as a cost-benefit analysis would do. It does not try and decide what is intrinsically more important between, for example, cleaning up the environment or caring for older people or increasing the number of computers in school. It does try to answer more limited questions about what has worked and what has not and what might be the relative benefit of changing the level of resources in particular programmes. However, if we want to change the level of resources in particular programmes, we need to know how many resources we are likely to have. This brings us to the third key element of the MTEF approach, the idea of calculating fiscal space.

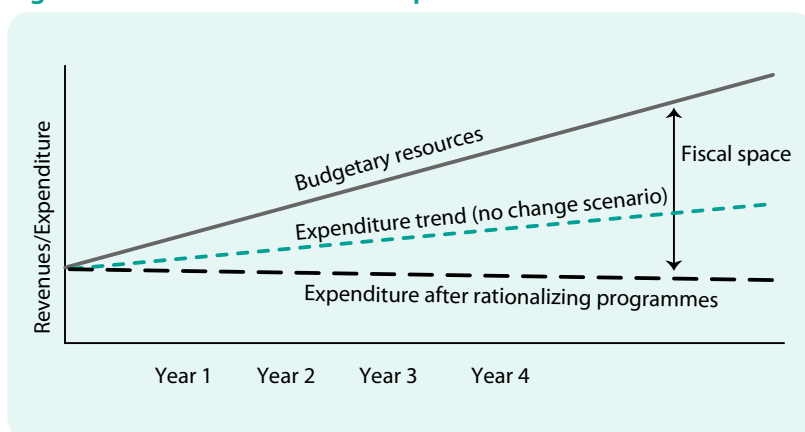
Component 3: Creating (and Using) Fiscal Space

Although education budgets form part of the government's so-called discretionary expenditure and have to be approved by the legislature every year, in reality very little of the budget is discretionary. Most of the resources, perhaps up to 95 per cent, are often committed into existing patterns of service delivery before the budget is passed, for example paying teachers on the permanent payroll, providing classroom spaces

for the existing pupils and funding the standard replacement cycle for textbooks and equipment. However, if governments are to implement new programmes they need to create additional resources – creating “fiscal space” as it is sometimes referred to – within the budget.

But from any given point in time, if we project into the future not quite so much of the budget may be committed (see Figure 2). The further we look into the future the less there is committed. This is for two reasons. First, budgets tend to grow due to economic growth, thereby increasing the total revenue available to the government. Furthermore, in recent years education has also benefited from a higher proportionate share of the total government budget. Thus, even relatively modest amounts of real growth (2 or 3 per cent per annum in real terms) can, over three years, create 7 to 10 per cent of additional resources.

Figure 2: The Creation of Fiscal Space



The second way in which additional resources can be created comes from stopping or scaling back existing programmes. Savings freed up from reducing spending on existing programmes can then be re-deployed within the existing budget limit to new programmes. In Singapore it is even a budgetary rule that government spending ministries and agencies must cut a proportion of their existing programmes (currently 5 per cent) every year, in order to force ministries to evaluate their programmes and re-deploy resources.

However, scaling back or stopping programmes completely can take considerable time. For example, if a government wants to reduce the number of teachers, it needs to reduce the number of teacher training places available in colleges of education. To make this change, the Ministry of Education will probably need to give one year's notice to the institutions to reduce the numbers in the first year student intake. (The government may also need to negotiate new financial arrangements to cover overhead costs which cannot be easily reduced in the short-term). It could take a further three years before the reduced cohort becomes qualified and is available to be deployed in the teaching force. This makes a minimum period of four years in total before a government could take advantage of the natural rate of retirement to reduce the number of teaching posts in line with the reduced numbers coming out of teacher training colleges. Even then it may have problems redeploying teachers to the right areas and the right subjects and take another year to achieve this.

On the other hand, if a government wants to increase the number of trained teachers, it could take even longer. It may take two years to build a new facility, one year to make it operational (in terms of recruiting staff and installing equipment etc.) and three years before the first intake of extra teachers are available to teach.

This then is potentially the most valuable element of the MTEF process. It offers the chance to match the often long elapsed time it takes to bring policies into effect with the financial resources needed to achieve it. It also allows government and ministries to temporarily increase spending so as to create more fiscal space in future budget years. It can only do this, however, if it has a clear idea of what commitments it really has (key component 1), what programmes really work (key component 2) and what additional resources are available to implement new ideas (key component 3). Therefore, only when all three components work together can MTEF have the chance of being able to turn long-term goals into policy implementation.

Section 2:

Reasons for the Introduction of MTEFs

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

At the same time there was also a growing recognition that there was a substantial disconnect between the longer-term objectives of national economic and sector planning and the realities of constrained annual budgets. In the late 1950s and 60s because of growing budgets this disconnect had not been so obvious but once fiscal instability had set in, the lack of realism in these plans began to have more impact. Policy makers became more concerned to link planning to the public finance cycle and develop effective systems of performance monitoring and measurement, which would support a more transparent and rational allocation of resources both within and between the different sectors. MTEF was part of that public policy response.

In the developing countries, a second paradigm change occurred in the way financial and technical aid was given. In the late 1990s it became obvious that less developed countries whose governments already had weak institutional capacities, could not cope with the demands of a large number of donors whose operational procedures and reporting and accountability requirements differed widely. This has led to a growing process of aid harmonization, driven by the adoption of

the OECD Guidelines on Aid Effectiveness.³ In a growing number of aid recipient countries, the government and development partners have adopted a sector-wide approach (SWAp) which has involved donors trying to harmonize their aid initiatives behind one single agreed development plan. Many donors have contributed their funding direct to the government budget as budget support. A key criterion for allocating programme funds in this way has been the presence of a credible MTEF. Thus the SWAp has also been instrumental in driving the acceptance of the MTEF approach.

Why has the Education Sector been the Lead Sector for Piloting MTEF?

Education has had a good decade in spending terms in most countries. Despite falling school age populations, many OECD and middle income countries have maintained or increased their investment in education, viewing high level skills as a key element in developing a competitive edge in a globalized world economy.

In the less developed countries the focus has been on meeting the requirement of the six Education for All goals. The second and third Millennium Development Goals (MDGs) are related to education, that is, to provide free and universal primary education to all school age children, while ensuring gender parity in education. In response, both host governments and donors through bilateral programmes and multilateral mechanisms such as the Education for All (EFA) Fast Track Initiative (FTI) Catalytic Fund have provided the education sector with substantial additional resources. In both cases governments need to prove that resources are being allocated in accordance with declared priorities and that they are having some impact. MTEF is a key tool in being able to demonstrate this.

Finally, education offers a good testbed for the MTEF approach for two reasons. First, the size of the education budget in the overall budget of most countries (15-25 per cent) makes it a strategically important sector. Second, it is easier to relate inputs to outputs and outcomes than in some other sectors, such as agriculture or health where outcomes are more difficult to define and measure and have a longer gestation

3 DAC Guidelines and Reference Series: Harmonising Donor Practices for Effective Aid Delivery available at www.oecd.org/document/60/0,3343,en_2649_3236398_15731196_1_1_1_1,00.html (accessed 13 August 2010).

period. By contrast, it is easier to measure education outputs in terms of student enrolments and completions, and outcomes in terms of test and examination results and to relate these to input-output ratios (pupil-teacher, average class size, textbook-pupil ratios) which have long been recognized as having an important impact on education performance.

Section 3:

Country Experiences in Introducing MTEF

The nine countries reviewed⁴ comprise a mix of different levels of economic, political and social development, and therefore represent an excellent representative sample of implementing a new and complicated process in different environments. Two of the countries are classified as high income (Republic of Korea and Singapore) and are not in receipt of financial aid. Two others (Indonesia and Thailand) are classified as lower middle income and receive principally multilateral assistance on a mix of concessionary terms. Five others (Cambodia, Mongolia, Nepal, Tajikistan and Viet Nam) are low income countries and are in receipt of substantial multilateral and bilateral assistance. Two of the countries, Mongolia and Viet Nam, have exhibited strong economic growth which looks set to continue in the medium-term and is likely to lift them to lower middle income status.

Geography plays an important aspect in determining the ease of communication between the centre and localities, and the division of responsibility between central and local government. It also influences significantly the costs and mode of the education process. The Republic of Korea and Singapore are relatively small unitary states with strong central governments and local administrations that receive most of their money from the central government. By contrast, Mongolia is an enormous country with a very small population and harsh winters. Almost 20 per cent of the education budget is spent on heating and a further 3 per cent on feeding 41,000 children of nomadic parents in dormitories.

Nepal has extremely difficult communications particularly east to west across the hill and mountainous areas. Indonesia, the country with the largest population in the sample, has a highly devolved system of government with 33 provinces and 440 districts. Population densities again vary significantly from over 1,000 per km² in Java to eight in Papua. Developing a national policy framework, which aligns local implementation with national policy goals while at the same time giving flexibility to address local priorities, represents a considerable political challenge. Developing a financial framework which applies

⁴ Cambodia, Indonesia, Mongolia, Nepal, the Republic of Korea, Singapore, Tajikistan, Thailand and Viet Nam.

standard unit costs to national policies and translating those into allocation formulae which reflect local cost differences is a major technical and political challenge.

Finally, it is important to recognize the importance of the political environment. Only Singapore, Viet Nam and the Republic of Korea demonstrate strong political stability. The Government of Indonesia emerged from dictatorship only in the late 1990s and has struggled to establish sound democratic government in the midst of separatist tendencies and terrorism. In Thailand, a 2006 military *coup d'état* brought down the then government. Since then, anti-government demonstrations have continued and contributed to general political instability. In Mongolia, a coalition government established after the 2004 election was short-lived and the new government remained in a fragile position under ever increasing public pressure and a politically hostile environment. Three of the countries (Cambodia, Tajikistan and Nepal) have recently emerged from conflict. Nepal, in particular, started its implementation of MTEF (2002-03) during the height of the civil conflict when local education offices were routinely bombed and a large number of western districts were effectively cut off from the central government.

The importance of the political environment cannot be underestimated. One of the most crucial aspects of MTEF is the discipline of hard budget ceilings and the importance of political leaders and institutions respecting those ceilings. This is hard to achieve in an environment where political alliances are constantly changing and the need to cut deals often means reallocating resources at short notice between different sectors, projects and localities. The failure to respect ceilings was particularly noted in Tajikistan, Mongolia and Thailand. It is vital to recognize this political dimension in evaluating the impact of the MTEF process.

Differences in the Approaches Taken by the Countries

The financial planning and budgetary reforms implemented in each of the countries have had a number of common elements:

- a Medium-Term Fiscal Framework (MTFF), also sometimes known as Medium-Term Budget Framework (MTBF) which determines the overall aggregate fiscal budget taking into account government

economic policy and the state of the economy; and which also allocates resources to sectors in line with national strategic priorities;

- one or more sector MTEFs, which determine sub-sector allocations and attempts to prioritize new projects and policies within a framework of recognizing existing commitments and the overall ceiling; and
- a much greater focus on clarity of objectives, the setting of key performance indicators to measure achievement of those objectives and more monitoring of progress to achieving those objectives. In particular, the requirements to monitor progress against MDG and EFA targets for the low income countries has reinforced the drive from the ministry of finance and national planning agencies to improve the measurement

The MTEF period in most of the countries reviewed was also standard, covering a period of three years – the coming budget year and the following two years. The exceptions were the Republic of Korea and Singapore where the planning period was five years. In Singapore's case the planning period was linked to the five year term of the government. One of the fiscal rules in its Constitution is that the government is required to achieve a balanced budget within its five year term.

Despite these broad similarities, there are many differences in emphasis between the countries. For example, the Nepal MTEF has put greater emphasis on using the MTEF to drive prioritization of projects (using a three-level classification system) to ensure that the most important (and those which have assured foreign funding) get the necessary counterpart funding. It has also used the process to prioritize funding for pro-poor projects and schemes. In Viet Nam the initial emphasis was on the development of an expenditure model which highlighted key cost drivers in the school education system and, in particular, the impact of demographic change on pupil-teacher ratios. In other countries in the region, the emphasis has been on defining objectives and key performance indicators and on developing monitoring tools though success (e.g. in Thailand and Indonesia) has so far been mixed.

One major difference lies in whether the approach was immediately applied across the sectors as in the Republic of Korea (2004) and Nepal (2003-04) or whether the process was much more of a pilot sector approach such as that employed in Tajikistan (education was the first

pilot sector in 2008, with health, and labour and social affairs following in 2009) and Viet Nam (four pilot sectors and four pilot provinces over four years, 2005 to present). Although Thailand and Indonesia represent exceptions, an early roll-out across all sectors seems to offer greater likelihood of the MTEF being integrated with the annual budget process.

A second related difference has been whether the introduction of MTEF was mandated through primary legislation or whether it was promulgated through MOF policy supported by administrative regulation. For those countries that adopted a pilot approach, there was a feeling that a legislative mandate helped institutions take the process more seriously and signalled that the pilot was not an experiment that may be discontinued but a testing of the approach prior to a full roll-out. Although Singapore, the country with the strongest MTEF, does not have it mandated through its Financial Procedure Act, the fiscal rules in the Constitution provide indirect support.

A third key difference relates to the definition of the education sector. In the Republic of Korea, Singapore, Nepal and Thailand the definition is primarily an institutional one, namely the institutions at national and local level that are subordinated to the Ministry of Education and the autonomous university institutions. This institutional based definition when coupled with control over the majority of resource flows gives the Ministry of Education the potential to have much more say over aligning policies and resources in the MTEF.

By contrast, a number of the other countries, notably the former central planning economies (Viet Nam, Mongolia and Tajikistan) have an education sector that has been defined by the IMF-GFS functional definition of education expenditure. This means the education sector includes many institutions even at central level that are under the control of other agencies and who negotiate with the MOF on a direct bilateral basis. The MTEF presentation is therefore largely for information purposes: the MOE has very little effective control over much of the sector spending reducing its ability to have a significant policy impact or drive change.

A final important difference concerns the institutional driver of change. Although there are important issues about ensuring sufficient educational perspective on policy and resource prioritization, the MTEF process clearly works best when it is driven by a strong Ministry

of Finance. There is a much better integration of the medium-term and the annual and of using forward budget ceilings as the starting base for the annual budget process. This is clearly the lesson from Singapore and the Republic of Korea where the process has been driven by the Ministry of Finance and from other OECD countries (United Kingdom, Netherlands and Sweden) where a strong MOF in sole charge of the budgetary process for capital and current expenditure have been able to deliver solid three year spending frameworks.

By contrast, many countries in the region have split responsibilities for the budgeting and planning process. Typically this may involve the central planning agency, such as the Ministry of Planning and Investment in Viet Nam or Bappenas in Indonesia, which controls the determination of the MTEF and the annual capital budget and the MOF who controls the annual revenue budget and local allocation process. In other cases it may involve different responsibilities e.g. for budget planning and budget execution (Bureau of Budget and MOF Thailand) or more actors such as the National Bank (Tajikistan). The net result is that coordination problems are increased partly because of differences in enthusiasm for the initiative and partly through recognition that effective control of the process will tilt the balance of power in favour of the institution with primary ownership of the MTEF/MTEF. The practical result is a much lower level of progress than might otherwise have been the case.

Progress in Developing MTEF and the Current Position

Progress in developing MTEF as a consequence of some of these issues has been good in some countries but less strong in others. In the Republic of Korea and Singapore where an effective annual budget process was already in place, government finances strong and stable and the MOF in effective charge, progress in integrating MTEF with the annual budget has been fast and the next phase should be mainly one of refinement. In the Republic of Korea, for example, there was already clear progress at an early stage (2006) in reflecting the performance of different projects in future allocations, although overall changes in sub-sector allocations have been limited.⁵

5 It is worth noting, however, that one of the sub-sectors – the general school sector – is very large and that changes between pre-primary, primary and secondary education will not show up in the headline ceiling allocations made by the MOF.

Many of the low income countries have recorded significant increases in the overall education budget. For example, Nepal recorded an increase from 3.1 per cent of GDP in 2001-02 to 3.7 per cent in 2007-08. Similarly, Viet Nam has succeeded in raising the education share of the national budget to 20 per cent in 2010 (from 15.5 per cent in 2003-04), and Tajikistan and Mongolia have set similar targets. This can be at least in part attributed to the development of the MTEF; it has helped to mobilize donor funding since an MTEF is seen as a core element in the SWAp. It has also helped to draw the attention of domestic policy makers to resource gaps in the sector particularly the low levels of non-salary funding in the primary and lower secondary levels.

Nevertheless, in most countries the MTEF remains grounded in a pilot phase. While supported in most of the countries through a state finance law (for example, Indonesia UU17/2003) it nevertheless plays second fiddle to the annual budgeting process. For example in Indonesia, the fiscal framework is not guiding the prioritization in the Medium-Term National Development Plan and the forward estimates in MTEF are not influencing annual budget allocation. In Thailand, a major problem is the lack of respect for the annual and medium-term ceilings. Bottom-up budgets are produced on an incremental budget basis which produces large discrepancies with the annual and medium-term ceiling. This lack of realism in the medium-term financial estimates has not been helped in both countries by governments entering into expensive commitments to extend the subsidies to basic education which were not properly costed and which do not appear to be affordable.

Overall there does not seem to be enough focus on generating quick wins which would have helped build stronger engagement with the process. One exception was Viet Nam where the demographic dividend from increasing pupil-teacher ratios (from levels below 20:1) and rationalizing school sites appears to have been translated into a reallocation of non-salary operational budgets, although there was a gap of 2-3 years between the first indications of the possibilities in the pilot study and the implementation of revised changes. Several countries such as Indonesia are trying to relaunch the process by redesigning programmes and indicators to make them a more output/outcome-oriented approach. However, a less technical approach aimed at identifying waste (for example, uncompleted projects) and potential savings for redeployment may help build better political engagement.

Section 4:

General Issues Regarding Implementation

The patchy implementation of MTEF to date can be explained by a number of related institutional, political and technical issues, which apply to ministries of education but also affect to a greater or lesser extent most government ministries implementing MTEF. This section discusses these general implementation problems and Section 5 discusses them in the context of what ministries of education can do to resolve them.

Capacity Limitations and the Implications for Change Management

A major issue for most countries implementing medium-term financial planning is that it involves a significant improvement in the skill sets of policy and financial staff, and an integration of different skill sets through more joint teamworking. This is necessary in both the central agencies of finance and planning and in the sector ministries. The production of budgets is no longer a purely arithmetical exercise which involves uplifting on an incremental basis last year's budget (even if the basis for forecasting these incremental changes is relatively accurate). Rather, it involves sophisticated data collection and analysis from local governments and decentralized units. It also involves commissioning wide ranging reviews, analyzing the implications, producing recommendations for programme changes, negotiating those changes and finally, managing implementation.

The skill sets required are partly technical (information analysis, programme review and cost accounting) but also of a 'software' nature – communication and negotiation skills being paramount. The change in skill sets needs to be accompanied by a change in work arrangement and work culture. The habit prevalent in many governments of working narrowly in silos and withholding information is not conducive to providing a good institutional environment for the development of MTEF.

Similarly, it is important to recognize that changing skill sets will involve additional posts and changes in hierarchies. Existing staff with sound basic skills and a good institutional memory are important and

investment should be made in their training and development. It is vital, however, to bring in fresh talent and new ideas. Accommodating these changes *within* long-standing organizational structures with promotion based largely on age and loyal service, represents a significant *change management* issue. Likewise, changes to organizational structures and staff numbers may also be time-consuming and complicated but ultimately necessary.

This is one of the aspects of the introduction of MTEF that has been least understood and received the least attention even from international development assistance. Cambodia is perhaps the only country where MTEF has been brought within a wide-ranging and holistic change programme modelled on a stepped or 'platform' approach. This, perhaps, is a reflection of the very low skill base from which Cambodia started its public financial management (PFM) reform as well as a more coherent approach in both planning and funding to PFM. The platform approach recognizes that development in one sector facet needs to be matched by the same level of development in other facets and that changes therefore need to be mutually supportive. For example, developing sophisticated budgetary tools is not much use if there is no reliable accounting information or if money does not flow down to spending units. This platform approach may offer a slower speed of change in one aspect but by making sure that the pace of change is kept in step, offers more sustainable improvement over the longer-term.

By contrast, other countries have worked on a make do basis. Tajikistan, for example, had only seven staff in the PFD of the MOE. Initial work on Viet Nam's MTEF was undertaken between an international consultant and three staff members in the PFD and only one staff was a technical person. It is very difficult to generate or sustain the momentum for change in these circumstances. Interestingly, this aspect of change management is the only significant, but a highly important omission from most of the case studies.

The Span of MOE Control and MOE Sector Leadership

A key issue already touched on concerns the effective span of control of the MOE over the education sector. In many countries education services are delivered through local government authorities with the

MOE having limited or no direct control over the schools and colleges themselves. Nevertheless, in some countries the MOE is still able to exert strong central direction. This is exerted through the central government's allocation of the majority of resources, control over the resource allocation formulae and use of specific grants to implement new policy initiatives. These levers back up educational levers – control of the curriculum, and a strong inspection function.

In the country case studies, only in the Republic of Korea and Singapore do MOEs have strong central levers. In the Republic of Korea, 75 per cent of the resources of the local education offices come from central taxation. However, in other countries the ministry's influence is very weak. In Tajikistan, for example, where 17 local governments finance up to 83 per cent of education expenditure, the MOE has to deal with 40 key budget organizations (KBOs) many of whom deal with the MOF on a bilateral basis without any reference to the MOE. The situation is similar in Viet Nam where the MOE has to deal with 64 provinces. When the MTEF process started in earnest in 2003, only half the provinces were sending the MOE any financial data. The ministry directly funds only a tiny number of schools and most of the national targeted funding programmes for education are directly allocated to the provincial level.

The same is true at tertiary and higher levels. In Viet Nam, as in many countries, vocational schools and colleges are under the control of the Ministry of Labour, Social Affairs and Invalids. The two national universities of Hanoi and Ho Chi Minh receive direct funding from the MOF and only around one-third of other universities are under the MOE. The remaining universities are subordinate to other ministries or provinces. In the latter, ambitious expansion plans have run counter to the national policy interest of strictly controlling total numbers in higher education and in specific subjects, including teacher training.

MOE influence over the resource allocation methodology is important not just to increase MOE control but also to ensure that local governments are provided with both the necessary resources and the incentives to use those resources in ways which meet national objectives.

Fiscal transfer mechanisms and formulae are normally the responsibility of ministries of finance and local government (or interior). Many local

government transfer formulae are crude using a few key measures (such as population structure, density, income per head etc.) which do not necessarily reflect differences in circumstances or needs between individual sectors. For example, in Viet Nam the transfer formula for education prior to 2004 used total general population and it was a significant move forward that the formula was adjusted to use the school age population of 1-18. Resource formulae are also very difficult to change because they involve the agreement of local stakeholders and the need to balance a wide range of competing interests. Ministries of finance may also want to avoid formulae which include complicated verification systems. In the case of Viet Nam, the MOF has so far resisted pressure to base a majority of funding on actual enrolments, which would more accurately reflect the true cost base for schools, partly because of the likelihood of the inflation of actual enrolments and the difficulties of providing accurate verification.

General formulae have the advantage of being relatively easy to understand and of conferring flexibility on local governments to adjust funding to local needs and realities. However, these general formulae also make it difficult to translate funding provision at national level into available funds at district level particularly if they pass through provincial hands first. Specific grant funding on an accountable basis (either subject to a fully fledged claim/reimbursement process or a general audit process) is a useful mechanism but administratively expensive and cumbersome. There is also the problem of mainstreaming specific grants after a particular period of time. If they are not mainstreamed, the budget becomes full of specific project funding which undermines the flexibility of looking for savings that MTEF is intended to encourage. It may lock in certain patterns of service provision that may not be appropriate.

The Relationship between the MOE and the MOF

The balance of power in the relationship between the MOE and the MOF stems to a large extent from the institutional framework described in the preceding section. One of the concerns raised in the Korean case was the absence of education input into the determination of four sub-sector financial ceilings for education. In fact for low income countries that are large aid recipients, the development of SWAp has tilted the balance further against the MOE at least in the short-term.

Project finance traditionally was routed through units set up in the MOE. SWAp funds, however, are normally routed through government consolidated funds with specific MOE accounts only sometimes kept for hard currency procurement.

The MOF also needs to take a different view of its span of control. While negotiating with many different budget organizations may give the illusion of control, in reality it is a difficult and time-consuming process. It is even more problematic to try to drive national level objectives whilst operating with many different organizations. Therefore, in most situations MOF objectives concerning fiscal discipline and improved public sector performance would be enhanced if it stepped back from engagement with different spending agencies and focused on giving the MOE sufficient authority and levers (which is discussed in the recommendations below). This would allow the MOF to focus on the big picture and the MOE to drive change in local education authorities and subordinate institutions.

The evidence from all the countries that have successfully implemented MTEF is that they have moved away from individual controls over education establishments' line item budgets and focused their attention on allocating resources in a fair and transparent way, permitting year end flexibility in terms of being able to carry forward underspending and enhancing service delivery. In Singapore, for example, although the MOF still operates establishment controls, the total ceiling including the balance between recurrent and capital spending is handed over to the MOE. As a result, the MOE exercises almost total responsibility for reviewing and adjudicating between different budget proposals within the overall ceiling which makes the completion of the budget process very fast.

Integration of MTEF with the Annual Budget – Lack of a Hard Budget Constraint and Unrealistic Bottom-up Budget

A key factor for making MTEF successful is its effective integration with the annual budgeting process. This is vital because as noted earlier only the budget counts in legal terms. Therefore, if a parallel process is run, there is a probable risk that the MOF, line ministries and local governments will devote their technical and negotiating energies to the annual budget and not bother with the MTEF on the

grounds it does not really count. This is clearly a problem in Thailand and Indonesia where the MTEF budget ceiling is not respected as a hard budget constraint and the annual budget process produces a significant variation from the MTEF figure. In a well functioning process such as Republic of Korea's, the MTEF produces one or more hard ceilings and ministries use the annual budget process to identify the precise funding needs of individual programmes and institutions.

Another phenomenon which arises from the lack of a hard budget constraint is the padding of existing budgets in order to justify claims beyond the ceiling. Padding budgets in education can involve, for example, budgeting for full establishments rather than allowing for a reduction due to the vacancies that inevitably occur in large establishments, and allowing for salary increments but ignoring the impact of retirement (expensive workers who are replaced by cheaper new entrants) on average salaries. Budget negotiators may also be astute in knowing how to combat the threat of budgetary cuts. One well known tactic is to deliberately put up those things which will have the highest public impact (for example, closing schools for the disabled or cutting subsidies for poor parents) rather than other achievable savings such as trimming certain types of allowances. By contrast, where the constraint is firm, there is pressure to drill down budgets to what is really needed, so as to be seen to be fair between different sectors and to create savings for new programmes.

One of the indicators of a fully integrated MTEF and budget system is the flexibility to carry forward underspending. The possibility of carry forward requires having both a hard annual budget constraint (since you need to calculate the extent of underspending) and the opportunity to add it to a known future budget figure (otherwise it will not be clear if the budget has been increased to reflect the carry forward). It is a key indicator of an integrated process and interestingly only Singapore, and to a limited extent, the Republic of Korea allow this. In the case of Singapore, underspending of more than five per cent may result in cuts to the budget in the following year.

Inadequate Data for Budgetary Analysis and Poor Financial Information Flows

A linked problem concerns the absence of usable financial data for budgetary analysis. In many cases the MOE may get limited financial data since it provides very little funding, and institutions do not see any need to file financial returns (or for ministries to seek them). The MOF may also be unwilling to release information from its treasury systems for fear it may empower ministries in their negotiations. By contrast, in Singapore the MOE receives detailed financial returns from its education divisions and institutes of higher learning six months before the start of the new budget year so it can commence its detailed review of spending proposals.

Equally problematic is the way financial information is stored and transmitted even in MOF systems. Information is often summarized at a high level of aggregation in summary item analysis and these costs are not recorded against individual cost centres. This is particularly true in countries which use manual or spreadsheet-based accounting at district and school level. Moreover, as the information is aggregated the sub-sector dimension is lost so the information that ends up at central treasury level is often highly aggregated.

Finally, the problems in the inadequate structure of information are compounded by delays in consolidating and filing reports. This is particularly the case for manual systems where a high degree of manual compilation from hard copy reports may be necessary. This process may be subject to errors in consolidation, missing returns and errors in submitted returns. It is also not helpful to be reliant on financial data that may be two or more years old.

Lack of Solid Political Commitment

MTEF like all government processes is primarily a political one. For it to be successful it requires politicians in charge of spending agencies to engage with it and respect its outcome. This is, of course, difficult in a volatile political environment and it is therefore tempting to regard it as being more successful where the politics are dominated by one party.

In reality this is not the case. Some of the countries who have been most successful in implementing MTEF are multi-party democracies usually governed by coalitions. Sweden, Denmark and the Netherlands

are very good examples. The important aspects of their processes are that there are effective mechanisms to agree budgetary priorities and outcomes, that those outcomes are respected and that the whole process is underpinned by a supply of excellent high quality analytical reports on a whole range of public processes. In the case of the Netherlands, the framework is underpinned by detailed fiscal forecasts from an independent institute, the Central Planning Bureau.

If we look at the countries in the case studies, it is not the volatility of the political environment that is problematic but respect for process outcomes. Thailand represents a good example. The progress made in 2002-05 when the government was relatively stable was not noticeably better than that made in the volatile atmosphere post September 2006. By contrast, the Republic of Korea, where there have been several changes of government, has made very solid progress in its implementation of MTEF.

One important factor in some countries is the attitude of donors to the importance of the MTEF process. Where project donors have predominated or where some donors are accustomed to working in project mode, developing MTEF may have had lower priority than in other countries where a lot of support is provided through sector or even general budget support. In the latter countries the MTEF is actually seen as being vital to underpin the allocation of resources to and within the sector. A good example is the difference between Bhutan and Nepal. Bhutan's PFM and annual budget system are comparatively good but its aid donors are small in number and primarily project based and this has unquestionably contributed to the slow roll-out of sector MTEFs. By contrast, in Nepal the number of donors in the education (and health) sectors is high and in both the primary education and health sectors, many of the lead donors are providing sector budget support through SWAp.

The Future: the Impact of the Financial Crisis and Coping with Cutbacks

An acid test for MTEF will be how it performs during the present economic crisis and in particular what degree of protection it will give to enable projects already started to be properly completed and implemented. Nevertheless, it should not be taken as a sign of failure that education budgets, or at least their growth rate, are cut back.

It may be necessary that all sectors absorb their share of the pain if only in terms of delaying capital projects. Since education generally is more labour intensive than other sectors, the education budget share may be cut proportionately more than other sectors if pay cuts are imposed on public sector workers. Whatever the short-term disincentive effects, it may not in the longer-term constitute a serious problem. Indeed, in previous crises it has been proved that it is easier to find real savings in times of hardship than in times of growth and this may again be the case.

There are, however, important internal and external issues in communicating the need for savings. Within government, the MOF needs to communicate clearly the required revisions to previously proposed forward estimates and hold proper discussions on how real savings may be achieved but which cause as little long-term damage as possible. These measures may include early retirement for those close to pensionable age, deferral of pension contributions for teachers early in their careers and delay of capital projects. The measures may also be accompanied by how the government may reinstate temporary reductions after the worst of the crisis is over. Externally, both the MOF and MOE need to work together to communicate the urgency of what measures need to be taken and why, in order to forestall employee discontent and strikes.

Section 5:

Proposed Solutions for the MOE in Tackling MTEF Implementation Issues

Many management techniques or processes fall in and out of use. They last for a few years and then fade away, as for example the original Programme Budgeting did in the 1970s and Zero Based Budgeting (ZBB) did in the late 1980s. However, despite the problems with implementation, as described in these case studies, MTEF is unlikely to go away. This is partly because it brings together some of the good ideas from past experiments (such as the focus in programme budgeting on defining programmes, objectives, targets and measures); and partly because many of the most important problems which face governments require long-term planning (e.g. climate change, or the ageing of the population or developing lifelong learning). The MTEF approach offers a way of mediating global ambitions into digestible short-term changes that help to deliver long-term goals. In light of the integration of the world economy and the need to control the size of fiscal deficits and maintain stable exchange rates, delivering new programmes will be heavily reliant on creating fiscal space within existing resources as well as simply appropriating additional resources.

Ministries of education need to engage on a number of different levels. This section outlines six of the most important dimensions of change. They address from an education perspective those raised in the previous section.

Technical Engagement with the MTEF Process

It is important for MOEs to engage technically with the process. This means significantly strengthening the capacity of staff and changing where necessary its institutional structures to manage the issue. Many PFDs in MOEs, particularly in the ex-central planning economies, have few staff. They are mainly focused on providing for their ministries' own needs (which often account for less than five per cent of sector expenditure) or are engaged with meeting the various requirements of donor projects. Existing staff usually lack the time or technical expertise to engage with the issue, effectively surrendering leadership of the process to the better trained and equipped budget teams in the MOF.

In a number of countries surveyed, MTEF has been given an initial impetus by the hiring of international consultants who usually have worked with national experts from affiliated institutions. This engagement is often critical to kick-start the process – importing vital knowledge that is lacking locally. But the process needs to focus on building national capacities and eventually migrate to and be driven by MOE's PFDs if the ownership and engagement is to be successfully built. Otherwise there is the danger that the process will be considered as foreign, not locally owned.

Consequently, there is a need to set up high level sector MTEF and annual budget teams within the MOEs which can focus on driving forward sector MTEFs in terms of policy option development, modelling, costing, quality of technical submissions, and gathering of financial and performance related data. However, implementing such a requirement is not easy. As noted in the previous section, significant organizational changes in MOEs, particularly PFDs, may impact on the status and authority of existing staff who may resent being displaced in the promotional or organization hierarchy. Increasing staffing quotas may also be problematic. Quotas agreed by the ministry of labour or equivalent bodies are often very difficult to change, but the offer of permanent posts is likely to be important in engaging and retaining qualified personnel. The MOF may also be reluctant to approve additional resources perhaps out of an unwillingness to enhance the capacity of rival units but most probably because they are following a central diktat to reduce or at least not to increase the level of administrative costs.

A key task for the MOE early on in the implementation of the MTEF is therefore to engage with the MOF on the issue of staffing and organizational change and to ensure regular engagement thereafter. Where donors are significantly involved in funding the sector, this also means engaging with them to ensure that overarching sector programmes (and supporting bilateral agreements) reflect the importance of achieving 'milestones' in education programme management including adequate staffing and reorganization in finance statistics and policy planning. The objectives set in those programmes must reflect a balanced and realistic approach to the development of MTEF in line with other technical and 'software' changes.

Resolving MOE Leadership of the Education Sector

A major issue is creating genuine MOE sector leadership where the ministry controls a small part of resources and there is a history of local government autonomy and institutional independence. Creating sector leadership involves a need to align the responsibility of the MOE to submit a budget on behalf of the sector with some power to obtain the necessary involvement and information from lower levels. Several levers would appear to be important. The first is control over targeted specific grant funding to support new policy initiatives. The second is to control or have at least high level influence over the resource allocation formula used to determine the size of education grants to the education sector; and if these are given as part of a block grant, to ensure that a high proportion of the education-related grant is passed to the education sector. An important early initiative in Viet Nam was the decision of the MOF in 2004 (linking with the change in funding formula) to direct that the education part of the block grant should be wholly given for funding education.

At the higher education level, a major step would be to create a universities funding council where common formula can be used to distribute a central pot of teaching and research funds. This need not necessarily interfere with current ownership or subordination patterns and could allow specific funding from sponsoring ministries for specific programmes (e.g. to train their own staff, or as in the case of universities linked with teaching hospitals to provide additional amounts for clinical training). However, most current financial support from sponsoring ministries would need to be top-sliced and routed through the central allocation mechanism; otherwise supplementary allocations would introduce distortions and lever additional unplanned spending into the higher education system.

These financial changes would create incentives for local education offices and local governments to send accurate and timely financial data to both the MOE and the MOF. They would also be more interested in engaging in direct negotiation/discussion with the MOE to ensure that resource allocation formulae more accurately reflect local situations if, for example, the remoteness or accessibility of communities generated significantly higher costs. In turn, through getting much better data, the MOE would have a much better foundation to calculate more accurate national level unit costs, and to cost the impact of new policy initiatives.

With the support of these financial levers, the MOE would be in a better position to demand and receive performance data, and to potentially allocate a proportion of new funding in line with performance. A more centralized approach to application of national education standards and national level inspection would give the MOE further levers for influence without the need to address contentious issues of subordination and ownership, which may in any case deter institutions from seeking out sources of local funding.

Building Better Relationships with the MOF – Tackling Unfunded Mandates

Improving the technical and institutional capacity of the MOE and improving its role in leading the sector will enhance the MOE's credibility as a partner with the MOF in the budgeting process. Another important stumbling block is a problem that has arisen from poor linkages between the legislative and financial aspects of legislation. This is the problem of unfunded mandates. Unfunded mandates are government promises enacted in legislation which have no prospect of being financially supported. Unfunded mandates are a significant problem where legislation could be proposed and passed with a supporting financial memorandum. They create significant problems in the budget because they concentrate a disproportionate amount of lawmakers' time on trying to allocate sufficient resources. They also threaten to carve up the budget in a way which is unrealistic and inflexible.

The case studies identify that this is an important problem for some countries in the region. Several have targets enacted in law to spend a certain percentage of the national budget on education with 20 per cent being a typical target (for example, Indonesia, Mongolia, Tajikistan and Viet Nam). In some cases this is further complicated by sub-sector targets, for example Viet Nam aims to spend 10 per cent on pre-school education. These macro targets may also seem at first glance to be a positive aspect of MTEF. In reality, they are unlikely to be so for three main reasons.

The first is that the targets are often very vaguely defined. Are the targets related to discretionary expenditure over which the government has effective control? If so, interest payments on the national debt and other legal obligations should be deducted from the budget before

the proportion is calculated. Should the national expenditure also exclude spending that is off-budget, for example, military spending or social security? What if the national budget needs to be cut as in the case of the current economic crisis? Does it make sense for education to take only its proportionate share of any savings the government has to make, or should the circumstances of education and other particular sectors be given greater consideration in the allocation of savings? The reverse is equally relevant: should education take its full share of any budgetary increase regardless of other demands?

In the worst case scenario, such as Indonesia where the target is 20 per cent of the budget excluding teacher salaries, the target lacks and diverts attention from what might be more realistically attainable in terms of new programmes and extra spending. It may also distort patterns of spending. In Indonesia's 2009 budget the allocation for education is five times that of the health sector.

The second reason is that such targets lead to 'game playing' by ministries of finance as they try to avoid un-fundable or undesirable targets. Viet Nam set a target of increasing the proportion of non-salary education expenditure to 20 per cent, which was a laudable objective. The MOF reacted by restricting the subsidy for salaries in the unit cost. Thus it looked like the proportion of non-salary expenditure in unit cost rose, but in reality universities were left to finance part of the salary increases from other sources or the non-salary part of the unit cost subsidy.

The third reason is that pursuing unrealistic growth diverts attention from the important task of identifying inefficiencies, reducing waste and redirecting resources to where they will have the greatest impact. A focus on improving the quality and effectiveness of spending will yield positive results in numerous areas. It is more likely that the MOF will provide additional funding if the MOE is finding savings within existing spending to co-finance new initiatives.

Building a Strong Annual Financial Cycle Budget and Accounts to Provide a Solid Foundation for Multi-Year Planning

One of the major problems that policy makers discovered as they attempted to implement MTEF is the constraints imposed by a weak annual budget process. In the case studies this was particularly evident in Thailand where budget submissions were based on large and unrealistic cost increases which meant sizeable discrepancies between the top-down ceiling and the sum of bottom-up aggregate budgets. As ministries of finance have attempted to implement MTEF as part of overall PFM reforms, the issue of the sequencing of reforms has emerged as a key issue. Where MTEF has been successful, it has been built on a strong annual budget process with solid bottom-up costing of recurrent and capital expenditure and strict compliance with the top-down ceiling. Building an MTEF without a sound annual budget process is like building on sand. It is therefore better to delay implementing MTEF and instead work out improvements in annual budgets.

Improving annual budgeting involves both the process and the content of budgetary submissions, with a more disciplined process inevitably having a positive impact on the quality of the technical submissions. Process improvements for the original budget submission would include:

- A clear timetable for budgetary submission from different levels including appropriate time for consolidation, review and negotiation with incentives to penalize agencies that do not comply (e.g. no consideration of budgetary increases or substitution of centrally prepared budget).
- A requirement for filing essential pre-budget report submission data (e.g. on enrolments, repetition and drop-out rates, teacher attrition, etc.)
- A well written unambiguous budget call circular containing clear directions on the treatment of different budgetary items (e.g. on staffing vacancies) and assumptions on price and wage inflation;
- A negotiation and review process which starts from respecting top-down ceilings; and

- An arbitration process for determining exceptional and complex spending issues which are pre-defined in the budget circular (for example, damage to schools suffered during the budget submission process from natural disasters or an influx of refugees and migrants).

There should also be scope for a revised mid-year estimates process that will allow for the identification of budgets likely to be under-spent at the year end and/or additional revenues that were not forecast at the time of the original budget submission. These additional resources can be drawn down to fund worthwhile programmes that can be brought forward quickly (e.g. scaling up equipment replacement programmes purchased under procurement framework contracts).

The key areas for improvement in relation to the content of submissions are likely to relate to the following:

- The calculation of teaching establishments including the impact of vacancy levels and additional allowances for responsibility, subject teaching, remote area teaching and qualifications.
- The calculation of non-teaching costs including the application of establishment norms for different types of schools and how these may vary due to factors such as pupil numbers, number of school sites, boarding or non-boarding status. There also needs to be a clear understanding of the non-teaching posts to be financed from fees or through community contributions.
- Differences in operational costs arising from different prices, connections or otherwise to the main power grid or water supply and the remoteness of schools which will add to travel costs.
- The costs of the curriculum and in particular how changes in the curriculum at different levels will affect books and equipment costs. The costs for mainstreaming physically disabled children in terms of teaching assistants.
- Differences in capital costs, the feasibility or otherwise of applying standard designs and unit costs and for accommodating disabled pupils (wheelchair ramp access, additional classroom space, etc.)
- Local generation of income including an understanding of legally admitted levies and private unofficial levies and the level of subsidies required to effectively replace such fees.

In-depth investigation of the needs and actual cost data is also likely to help establish a budget based on actual needs rather than traditional incremental increases and to identify clear gaps or contradictions in the MOE's own policies on, for example, teaching and non-teaching norms. Rectifying discrepancies and updating policies on norms, for example, framing certain spending norms as percentages, rather than absolute values, will help keep these norms updated in line with inflation and other changes.

Improving Sector Financial Information Flows

Ministries of education have, often with the help of development partners, invested heavily in education management information systems (EMIS) in order to provide reliable bottom-up data on enrolment numbers, internal efficiency, materials, facilities and measures of education achievement. Unfortunately, many such systems contain little or no financial data and where they do there is scant attempt to reconcile them to data held in different departments of the MOE or at a much more aggregated level.

Similarly, financial systems even at local government level often hold data at a much more aggregated level, such as by main types of expenditure (salaries, running costs, etc.) and not by school. This is because the main purpose of the financial system is to control total expenditure by main types and sectors and not to provide detailed information. As the information is gradually aggregated through the system, it becomes less and less useful. For example, treasury data in Viet Nam at the time MTEF was launched, aggregated financial data by province and functional classification. It even made it difficult to distinguish general schools from other education institutes subordinate to their ministries. For analytical purposes this has little or no value.

The MOE needs to invest significant resources in developing a financial return system. It is better if this system is developed in coordination with the MOF so that data can be shared and the MOE can benefit from the rigour that accompanies the filing of financial reports in designated formats. If the MOF is not willing to participate or wants to aggregate the data at too summary a level, the MOE needs to design and collect its own financial information. It will preferably do this through the EMIS so that the administrative burden for schools is reduced and

the time period of other data (such as enrolments) is comparable. Substantial investment needs to be made in the design, processing and validation/audit of such information. Furthermore, planning and finance departments of MOEs need to co-operate and coordinate in a more systematic way in areas related to financial data analysis, planning and accounting.

The process also needs to be incentivised since schools are often reluctant to share data particularly on fee or donated income in case their government subsidy is cut. Financial incentives for schools to submit accurate and complete returns on time may therefore be important. These can also be linked to, for example, funding for school improvement plans and can also be used to deny specific grant funding to those who are not co-operative.

Political Engagement with the MTEF Process

MTEF is not primarily a technical process. It is a political process which politicians use to allocate public resources across all the potential types and different beneficiaries of public goods and services. The MTEF process attempts to make this procedure more rational by first applying some basic rules (for example, respect for top-down budget ceilings) and secondly, relating choice more clearly to the objectives of the particular programmes of goods and service, their past achievements and likely future impact.

Political rationality does not always conform to the long-term economic objective of maximizing welfare. Sometimes it is important for politicians merely to promise projects, sometimes for electoral purposes or at least start them in locations that make little economic sense; or to expand the number of schools or teacher training places when it would make more sense to reduce them. Therefore, if MTEF is to obtain political engagement, it needs to focus on delivering quick wins to gain initial credibility and then be able to demonstrate the advantages of the MTEF system for delivering continuous change. A rigorous technical approach has little chance of success, unless it engages with the political reality which is often short-term and self-serving.⁶ Looking at the case studies in the region it is clear that of the middle income and low income countries Viet Nam offers an important but rather solitary

⁶ A good example from Europe of a technically sound MTEF which lacked political engagement is that developed in Albania.

example of the value of identifying large savings (from raising the PTR) and reallocating resources to non-salary expenditure. By contrast, Thailand and Indonesia, where the process has been highly technical, have so far failed to make an effective linkage with the budget system or deliver significantly greater resources for education.

MTEF allows for quick wins by offering the opportunity to spend money now in order to save money in the future and to demonstrate the positive financial impacts of such a change in a medium-term perspective. For example, it can encourage the development of projects which may incur significant capital expense up-front (for example, school site rationalization, or energy efficiency measures), but which provide long-term recurrent savings through reduced energy bills and school transport. It can speed up the process of capital construction by ensuring that multi-year funds required to finish projects are committed in each of the forward years of the MTEF, avoiding lengthy delays and on-off starts where the funds effectively have to re-bid in each annual budget cycle or alternatively are included as one lump sum in the annual budget.⁷ It can identify capital projects for which significant cost is incurred in design fees but which have little or no chance of being commissioned or completed.⁸

In understanding these quick wins, there is an important role for the construction of technically simple spreadsheet models (or costing tools) which show the financial impact of changing key cost drivers such as the pupil-teacher ratio or average class size or teacher salary. In Viet Nam many staff in the MOE knew that pupil-teacher ratios were falling, but the MTEF model showed how significant the fall in the PTR had been, what it would be in the future and the potential savings from doing something about it.

Almost all submissions for EFA FTI-Catalytic Fund or for donor sector programmes have included a basic financial costing model. However, most of these models lack a policy interface. There are too

7 For example, in Bhutan, one major problem has been the extent of underspending of capital budgets caused in part by agencies appropriating the whole cost of a two or three year project in one budget year so as to protect the funding for future years.

8 For example, the author's experience in Zambia in the 1990s found there was a pattern of the public works department commissioning the design of lots of new projects which had no prospect of being completed or built. However, as the design fee was set by law as a percentage of the final estimated value, there were significant possibilities for corruption by commissioning designs but never carrying them out.

many variables and no proper distinction between controllable and exogenous variables, no easy way of changing a few key variables and an absence of graphical outputs to display the impacts of discrete changes. Models offer the chance to have a positive interaction with policy makers but they need to be user friendly and the impact of changes easy to see.

In conclusion, we may identify three areas which the MOE needs to pay attention to, especially in developing countries. First of all, it ought to engage politically with the process. This means identifying real, quick win benefits and downplaying unrealistic legal and/or political commitments. Secondly, it must actively engage and partner with ministries of finance and other central planning agencies to make MTEF work, avoid meaningless game playing and work to align fiscal transfer and information flows to the needs of MTEF. Thirdly, it needs to raise its technical capacity to engage and internalize the process in terms of staff and information.

Annex 1:

Key Country, Social and Economic Data

| | Mongolia | Nepal |
|---|----------|-------|
| World view | | |
| Population, total (millions) | 2.61 | 28.11 |
| Population growth (annual %) | 0.9 | 1.7 |
| Surface area (sq. km) (thousands) | 1,566.5 | 147.2 |
| GNI, Atlas method (current US\$) (billions) | 3.36 | 9.84 |
| GNI per capita, Atlas method (current US\$) | 1,290 | 350 |
| GNI per capita Rank | 151 | 195 |
| GNI, PPP (current international \$) (billions) | 8.27 | 29.84 |
| GNI per capita, PPP (current international \$) | 3,170 | 1,060 |
| GNI PPP per capita Rank | 148 | 193 |
| People | | |
| Life expectancy at birth, total (years) | 67 | 64 |
| Fertility rate, total (births per woman) | 1.9 | 3.0 |
| Adolescent fertility rate (births per 1,000 women ages 15-19) | 17 | 101 |
| Mortality rate, under-5 (per 1,000) | 43 | 55 |
| Immunization, measles (% of children ages 12-23 months) | 98 | 81 |
| Primary completion rate, total (% of relevant age group) | 110 | 87 |
| Ratio of girls to boys in primary and secondary education (%) | 107 | 97 |
| Public Expenditure on Education as % of GNP (2006) | 5.3 | 3.2 |
| Public Expenditure on Education as % of total Government Expenditure (2006) | .. | 14.9 |
| Economy | | |
| GDP (current US\$) (billions) | 3.93 | 10.28 |
| GDP growth (annual %) | 10.2 | 3.3 |
| Inflation, GDP deflator (annual %) | 12.3 | 7.7 |
| External debt stocks, total (DOD, current US\$) (millions) | 1,596 | 3,645 |
| Total debt service (% of exports of goods, services and income) | .. | 4.5 |
| Gross capital formation (% of GDP) | 40 | 28 |
| Revenue, excluding grants (% of GDP) | 40.5 | 11.9 |
| Cash surplus/deficit (% of GDP) | 7.7 | .. |

Source: World Development Indicators database (April 2009).

| | Republic of Korea | Tajikistan | Thailand | Singapore | Viet Nam | Indonesia | Cambodia |
|--|-------------------|------------|----------|-----------|----------|-----------|----------|
| | 48.46 | 6.73 | 66.98 | 4.59 | 85.15 | 225.63 | 14.45 |
| | 0.3 | 1.5 | 0.7 | 4.2 | 1.2 | 1.2 | 1.7 |
| | 99.3 | 142.6 | 513.1 | 0.7 | 329.3 | 1,904.6 | 181.0 |
| | 1,027.56 | 3.09 | 177.92 | 146.34 | 65.42 | 371.70 | 7.99 |
| | 21,210 | 460 | 2,660 | 31,890 | 770 | 1,650 | 550 |
| | 49 | 182 | 128 | 33 | 172 | 142 | 182 |
| | 1,302.62 | 11.46 | 409.23 | 214.86 | 215.37 | 802.79 | 24.92 |
| | 26,880 | 1,700 | 6,110 | 46,820 | 2,530 | 3,560 | 1,720 |
| | 44 | 172 | 123 | 10 | 156 | 146 | 173 |
| | 79 | 67 | 69 | 80 | 74 | 71 | 60 |
| | 1.3 | 3.5 | 1.8 | 1.3 | 2.1 | 2.2 | 3.2 |
| | 5 | 28 | 37 | 5 | 17 | 40 | 39 |
| | 5 | 67 | 7 | 3 | 15 | 31 | 91 |
| | 92 | 85 | 96 | 95 | 83 | 80 | 79 |
| | 102 | 95 | 101 | .. | .. | 105 | 85 |
| | 96 | 89 | 104 | .. | .. | 98 | 90 |
| | 4.6 | 3.5 | 4.3 | .. | .. | 3.8 | 1.8 |
| | 16.5 | 19.0 | 25.0 | .. | .. | 17.5 | .. |
| | 1,049.2 | 3.71 | 236.61 | 166.95 | 68.64 | 431.93 | 8.36 |
| | 5.1 | 7.8 | 4.9 | 7.8 | 8.5 | 6.3 | 10.2 |
| | 2.1 | 27.9 | 3.4 | 5.6 | 8.2 | 11.3 | 6.5 |
| | .. | 1,228 | 63,067 | .. | 24,222 | 140,783 | 3,761 |
| | .. | 2.3 | 8.1 | .. | 2.3 | 10.5 | 0.5 |
| | 29 | 22 | 28 | 21 | 42 | 25 | 21 |
| | 24.6 | .. | 20.3 | 20.9 | .. | .. | .. |
| | 4.3 | .. | 0.1 | 12.0 | .. | .. | .. |

Annex 2:

The Political, Legislative and Financial Context of MTEF Implementation

| | Republic of Korea | Singapore | Mongolia | Viet Nam |
|--|---|--|---|--|
| Mode of Government | Multi-party democracy | Multi-party democracy but virtually no opposition | Multi-party democracy | Single party Government |
| Political Climate | Stable | Stable | Relatively stable but instability after 2008 presidential election | Stable – some recent dissent |
| National Plan (long and medium term) | Vision 2030 (long term) National Economic and Social Development Plan (5 years) | Medium Term Action Plan (2004-08) | National Development Strategy to 2021 & Medium term Action Plan (2004-09) | National Development Plan 2001-10 |
| Education Plan (long and medium term) | Human Resource Development Plan (1 st plan 2001-05 2 nd plan 2006-10) | | Education Sector Master Plan 2004-09 | National Education Plan 2001-10, EFA Plan 2003-15 |
| Span of MOE Control | Strong at school level – 16 Local Education Offices subordinate to MOE. 75% of funding from central level. 43 National Universities under MOE | Strong through central control and allocation of resources and universities funding council system | Strong through 90% of funding from central level | Weak – most pending not under control of MOE; many universities funded through provinces and line ministries |
| School Year | 1 March–end February | January–November | 1 September–July | September–July |
| Financial Year | 1 January–31 December | 1 April–31 March | 1 January–31 December | 1 January–31 December |
| Single or Joint Responsibility at central level for MTEF | Single (MOF) | Single (MOF) | Single | Joint MOF (recurrent) and MPI (capital) – MOF overall framework |

| Thailand | Indonesia | Cambodia | Tajikistan | Nepal |
|---|---|---|---|---|
| Democracy, then military control (2006-07), reverting to democracy | Multi-party democracy | Multi-party democracy but weak opposition | Multi-party democracy | Autocratic rule by monarchy, managed multi-party transition and now multi-party democracy |
| Unstable, military coup 2006, Democratic elections end 2007 but two changes of PM since 2007 election | Relatively stable | Stable but corruption problems | Emerging from Civil War – increasing stability | Civil conflict to 2006; Interim difficult transition to multi-party democracy – significant instability |
| 5 year National Development Plan 2007-11 | Long term National Development Plan (RPJPN) Medium Term (5 years) National Development Plan 2004-09 (RPJMN) | National Strategic Development Plan 2006-10 | National Development Strategy incorporating PRSP 2007-11 | Long established 5 year national planning framework going back to the 1950s – now PRSP |
| National EFA Plan (2002-16) MOE Action Plan (2005-08) | 5 Year Strategic Plan (Renstra K/L) | Education Strategic Plan (2005-10) incorporating EFA Plan 2003-15 | 10 Year Plan 2006-15 including EFA | 10 Year Strategy for National Education including EFA, PRSP |
| Strong – 98% of school expenditure comes from central grant. Office of Basic Education in charge of funding formula | Relatively weak. Less than 30% of total education funding under MOE control. Half MOE spending in grants to local govts spent according to their preference | Potentially strong – most funding under central control with active tracking system to school level | Weak – 40 largest spending units outside MOE control | Reasonable partly through default. Only 2 autonomous universities. Education funding centrally controlled |
| 16 May–31 March | June–July | October–July | | March–December |
| 1 October–30 September | 1 January–31 December | 1 January–31 December | 1 July–31 December | 15 July–14 July |
| Multiple (MOF) Budget Office and National Economic and Social Development Board | Joint (MOF and Bappenas) | Joint (with Ministry of Planning contributing MT macroeconomic framework and PIP outside MTF) | Multiple – MOF, Ministry of Economic Development & Trade, National Bank of Tajikistan | Joint MOF (recurrent and overall) and National Planning commission (projects) |

| | Republic of Korea | Singapore | Mongolia | Viet Nam |
|---|--|---|--|--|
| Aggregate Fiscal Discipline | Strong | Strong – fiscal rules in Constitution | Middle | Weak |
| MTEF Mandated in State Budget Law | Yes (State Finance Act 2007) | No | Yes | No |
| Year MTEF introduced | 2005 | 2004 (in current version) | 2007 | 2005 for ministries |
| MTEF – Pilot (in addition to Education) or All | All | All | Pilot 2 Ministries Labour & Social Welfare | Health, Agriculture and Transport and 4 provinces |
| Ceiling Allocation to sub-sector level | Yes | No | No | No |
| Formal Programme Budget system in place | Yes | Yes | Yes | No |
| Effective linkage of MTEF to Annual Budget | Yes, MTEF and MTEF ceilings set hard annual budget constraint | Yes, MTEF and MTEF ceilings set hard annual budget constraint | MTEF set annual budget ceiling but some flexibility on optimistic – pessimistic scenario | No |
| Formal System for Prioritization in place | Large number of KPIs and reallocation based on performance | Formally incorporated in annual budget cuts to create fund for reallocation | Yes | No – Prioritization system designed but not fully used Reallocation from 2006 MTEF from salaries to non-salary recurrent. |
| Carry Forward of underspending | Limited to specified projects, procurements subject to review and compensations | 5 year block allocation for 5 years so ministries can borrow from later years & carry forward. Underspending of more than 5% results in lower budget allocation | No (although exists at school level to limited extent) | No |
| Resource Allocation system to schools and Higher Education (HE) | Formula funding based to local offices based on standard needs – less local resources approach. HE formula funding for recurrent and project spending | Formula funding for both schools and HE based with large proportion on per capita basis | Per capita funding except for utilities and capital to schools | Per capita allocation based on school age population 1-18. MOE University funding partly per capita |

| Thailand | Indonesia | Cambodia | Tajikistan | Nepal |
|---|---|---|--|--|
| Weak | Weak | Weak | Weak | Middle |
| No | Yes | Yes | Yes (Law on Public financial system 2008) | No |
| 2006 | 2004 | 2008 | 2008 | 2002 |
| All | All | All (earlier Education and Health pilot 2002) | All | All |
| No | No | No | No | No |
| Yes | Yes, from 2003. Simpler & more accountable structure from 2009 | Yes, 5 main and 15 sub programmes | Yes, along sub-sector basis with special programmes for staff training, language etc | Yes including gender and pro-poor programme coding |
| No top down sector ceilings produced or at least released | No ceilings not guiding budget allocations | Not fully integrated because capital is outside ceiling. Indicative recurrent ceilings set in budget circular | No, MTEF completed before Budget but PIP process outside | Yes to some extent but heavy reliance on donor funding has made actual expenditure outcomes variable |
| No | No | No | No | No |
| No | No | No | No | No |
| Per capita allocation for non-salary | High level general block grant system – population and area based | Per capita combined with flat rate allocation to schools | Per capita allocation implemented in 17 out of 63 rayons and expected to rolled out to all in 2010 | Per capita funding for school grants but criticism that system reflects large differences in local resources and needs |

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Asia-Pacific Education System Review Series No. 3

Education MTEF: Approaches, Experience and Lessons from Nine Countries in Asia

This paper was prepared under the framework of a regional project on education financial planning and financial resource allocation conducted by UNESCO Bangkok. The paper draws on the experiences of selected countries in the Asia-Pacific region in their implementation of Medium-term expenditure frameworks (MTEFs) in the education sector. It provides a succinct overview of the MTEF process and the conditions required for successful implementation. The case studies provide country specific examples of the issues and challenges faced in the implementation of MTEFs and the lessons learned. Furthermore, recommendations are made to assist planners and policy makers to enable greater synergy between policy, planning and budgeting.



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