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# Multi-Year Budgeting: A Review of International Practices and Lessons for Developing and Transitional Economies

L. F. JAMESON BOEX, JORGE MARTINEZ-VAZQUEZ  
and ROBERT M. McNAB

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In recent years, many developed countries have moved to develop their annual budget process in a strategic multi-year framework. While a common feature of multi-year budgeting approaches is the inclusion of revenue forecasts and expenditures estimates for two or three years beyond the current year, multi-year budget practices vary substantially between countries. This article reviews multi-year budgeting practices in six developed countries (Australia, Austria, Germany, New Zealand, Great Britain, and the United States) and attempts to draw lessons from these experiences for the potential application of multi-year budget techniques by developing and transitional countries. We draw five lessons from the multi-year budget practices of developed countries that are relevant for developing and transitional economies: (1) a multi-year dimension could be a valuable fiscal policy and management tool for developing and transitional countries; (2) the approach chosen in each developing or transitional economy should reflect the country's policy objectives, unique budget institutions and traditions, and administrative capabilities; (3) the introduction of a multi-year budget dimension is a gradual process; (4) the multi-year budget should be used to encourage the constructive involvement of line ministries in the budget process; and (5) the usefulness of the multi-year budget approach will crucially depend on the reliability and accuracy of the medium-term budget estimates.

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## INTRODUCTION

Over the last decade, a large number of Organization for Economic Cooperation and Development (OECD) countries have introduced significant reforms in the budgeting process. Three general trends can be discerned in these reforms.<sup>1</sup> First, in many developed countries, budget responsibilities have been devolved from the central budget authority to individual spending departments, thus giving these departments the freedom to allocate funds within centrally determined departmental spending limits. Second, a large number of countries have introduced result-oriented budgeting techniques into the budget process that are based on measures of departmental performance. These two sets of reforms are aimed at enhancing the efficiency with which public resources are allocated.

A third general trend in recent years is that many developed economies have moved to frame their annual budget process in a strategic, multi-year framework. Although a multi-year budget may be narrowly defined as a budget that determines government revenues and appropriates expenditures for a multi-year period, the term is often used to refer to a budgeting approach in which the annual budget process is enhanced with multi-year features, in particular, multi-year revenue and expenditure estimates or a multi-year financial plan. The rationale for introducing a multi-year budget approach is based on several potential benefits. First, placement of the budget process in a multi-year framework requires governments to make a more explicit and consistent statement of policy goals and priorities. Second, medium-term budget projections signal whether current policies and their future implications are at odds with this fiscal strategy. Third, a multi-year dimension provides continuity to the budget process by placing the annual budget discussion in the context of the government's medium-term fiscal strategy and policy priorities. Fourth, a multi-year budget encourages efficiency in the allocation of public resources by enhancing transparency and accountability in the budget process, and by providing a mechanism for the systematic review of expenditure priorities and commitments. Fifth, a multi-year budget serves as a vehicle for encouraging cooperation between various government agencies by inviting greater involvement of line ministries in the budget process.

On the other side of the coin, a multi-year budget approach also has several potential drawbacks. First, excessive reliance on the forward estimates in the annual budget formulation process could result in inflexibility and inertia in fiscal policies. Second, overly optimistic multi-year projections could be used as a justification for otherwise unjustifiable public spending programs. Third, depending on the objectives pursued and the approach chosen, a full-blown, multi-year budget approach may be a complex and administratively costly tool which may divert attention and resources from the more fundamental task of developing adequate annual budgets. The basic question asked in this article is whether

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1. Organization for Economic Cooperation and Development. *Statement by the Chairman at the Nineteenth Annual Meeting of Senior Budget Officials* (Paris: OECD, 1998). For a more extensive survey of recent budgetary reforms in OECD countries, see David Shand. "Budgetary Reforms in OECD Member Countries," *Journal of Public Budgeting, Accounting and Financial Management* 10 (Spring 1998): 63–88.

the adoption of a multi-year budget approach would help developing and transitional countries to improve their budgeting systems, or whether the introduction of a multi-year framework would in fact be a hindrance to the realization of sound fiscal policies.

### *Multi-Year Budgeting in Developing and Transitional Economies*

Budget processes in many transitional and lesser developed countries (TLDCs) often suffer from a variety of shortcomings which compromise the effectiveness of their fiscal policies. Beyond the inherent difficulties with revenue mobilization brought about by underdevelopment or economic transition, budgetary imbalances in TLDCs often persist due to unrealistic forecasts of future revenue collections and the absence of a strategy that prioritizes expenditure programs within available government resources. Thus, there is a potential for many TLDCs to benefit from the placement of their budget process in a multi-year perspective.

With the objective of providing a multi-year context for their economic policies, a large number of developing countries have adopted some type of medium-term economic framework or a multi-year development plan, often comprising a deterministic government “plan” of desired macroeconomic objectives. These development plans have often failed to provide a realistic context for medium-term fiscal policies due to a combination of factors. The plans tend to incorporate unrealistic expectations regarding medium-term economic growth and future revenue collections. The economic plans are seldom subject to periodic reviews and systematic updates. More limiting is the fact that these economic development plans typically lack a specific focus on fiscal policies and fail to link the development plan to the budget process. In contrast to these conventional development plans, a multi-year budget approach has the advantage of being a more flexible policy tool with a much greater focus on fiscal policies and outcomes. A multi-year budget approach can provide a non-deterministic appraisal of the economic and fiscal conditions in the medium term by placing the government’s current revenue and expenditure policies in the context of the medium-term outlook. The question is whether TLDCs are able to adopt and benefit from this approach without losing focus and control of the annual budgets.

Actually, an experiment of sorts on the effectiveness of a multi-year budget approach is under way in several TLDCs. A number of developing countries have already introduced a multi-year component to their budget process (such as Kenya and Tanzania), while others are currently in the process of doing so (such as Malawi and South Africa).<sup>2</sup> Among transitional economies, the new budget codes for the Russian Federation and Kazakhstan (adopted in 1998 and 1999, respectively) require the inclusion of a multi-year perspective in the annual budget process. In addition, a number of other TLDCs base their me-

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2. See Stephen B. Peterson. “Budgeting in Kenya: Practice and Prescription,” *Public Budgeting and Finance* 14 (Fall 1994): 55–76; Priya Basu and Oliver Morrissey. “The Fiscal Impact of Adjustment in Tanzania in the 1980s,” in *Fiscal Reform in the Least Developed Countries*, ed. Chandra Kant Patel (Cheltenham, U.K.: Edward Elgar, 1997): 160; The World Bank. “The First MTEF Experience in Malawi,” in *Public Expenditure Management Handbook* (Washington: The World Bank, 1998): 42–43.

dium-term economic and fiscal strategy on the medium-term *Policy Framework Paper*, prepared jointly by each of these countries with the International Monetary Fund and the World Bank.<sup>3</sup>

It is too early to determine the outcome of these experiments in TLDCs, but extrapolating from the experience of more developed economies, the results should be promising. The introduction of a multi-year dimension to the annual budget process has proven to be a successful tool for budget management and deficit control for many developed market-based economies. In fact, the inclusion of a multi-year component in the budget process among OECD countries is universal.<sup>4</sup> France, which until recently was the only remaining OECD country that did not include a multi-year outlook in its annual budget process, introduced its first *Multi-Year Program for Public Finances (Programme pluriannuel des finances publiques)* in December 1998.<sup>5</sup> The convergence in budgetary practices to include a multi-year perspective reflects the common positive experience with multi-year budgeting in developed countries. However, the specific benefits derived from multi-year budgeting in each of these countries depend on the purpose of the multi-year budget component, the design of the approach, and the administrative capability for the implementation of the multi-year budget reforms.

## **MULTI-YEAR BUDGETING: A REVIEW OF INTERNATIONAL PRACTICES**

The review of multi-year budgeting practices in developed economies cannot tell us much about the constraints faced by TLDCs due to limitations in administrative capabilities. Nevertheless, we believe that a review of international practices can be quite helpful in determining the potential applicability of multi-year budget techniques to developing and transitional economies.

Since multi-year budget approaches vary across countries in response to different policy objectives and distinct budget institutions, it would not be meaningful to try to identify a single international best practice. Instead, we present an overview of multi-year budget approaches that have worked well in six countries: Australia, Austria, Germany, New Zealand, Great Britain, and the United States. These countries together represent a wide spectrum of multi-year budgeting options. The main purpose of this review is to identify what features from the multi-year budget approaches in these countries have the potential for improving budgeting practices in TLDCs. The overview of international practices in this section is followed by a set of key lessons for those countries interested in exploring a multi-year framework for their budget policies.

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3. Subramaniam Ramakrishnan. *Budgeting and Financial Management in Sub-Saharan Africa: Key Policy and Institutional Issues*. Development Discussion Paper No. 622 (Cambridge, MA: Harvard Institute of International Development, January 1998): 29.

4. Organization for Economic Cooperation and Development. *Statement by the Chairman at the Twentieth Annual Meeting of Senior Budget Officials* (Paris: OECD, 1999).

5. Ministère de l'Économie, des Finances et de l'Industrie. *Programme pluriannuel des finances publiques à l'horizon 2002* (Paris, December 1998).

**TABLE 1**  
**Overview of Multi-Year Budget Approaches in Selected Countries**

	Australia	Austria	Germany	New Zealand	Great Britain	United States
Do multi-year projections reflect estimates (E) or a budget plan (P)?	E	E	P	E	P	E, P
Is the multi-year budget component integrated into the budget cycle?	Y	N	Y	Y	Y	Y
How many years are projected (in addition to upcoming budget)?	3	3	3	2	2	4
Are expenditure estimates made centrally (C) or by departments (D)?	D	C	C	D	D	C
How often are the multi-year budget estimates updated per year?	4	1	1	2	1	1
Do departments have flexibility in reallocating funds within their budget?	Y	N	N	Y	Y	N
Is an incremental approach to budgeting used?	Y	N	N	Y	N	N

The remainder of this section presents individual country reviews of the multi-year budget practices in the six OECD countries listed above. For each of the countries, we discuss the purpose of the multi-year budget approach, the assignment of organizational responsibilities, and the most salient features of the multi-year budget process. A summary of the main features of multi-year budgeting in all six countries is presented in Table 1.

#### *Multi-Year Budgeting in Austria*

The Austrian approach to multi-year budgeting is a good example of a budget process enhanced with multi-year features that does not require the commitment of excessive administrative resources.<sup>6</sup> The Austrian case reflects one end of the spectrum of policy

6. Organization for Economic Cooperation and Development. "Individual Country Descriptions: Austria," in *Budgeting for Results: Perspectives on Public Expenditure Management* (Paris: OECD, 1995): 73–78.

choices due to its simple application of multi-year budget estimates to enhance the annual budget process.<sup>7</sup>

The main purpose of the multi-year expenditure and revenue estimates in the Austrian budget formulation process is to show the medium-term fiscal consequences of government policies which have already been enacted. As such, these multi-year budget estimates reflect future fiscal flows under current tax and spending policies, and are thus strictly informative in nature. The multi-year estimates are also used for internal government planning purposes.

Multi-year estimates for revenues and expenditures in Austria are produced for three years in addition to the current annual budget proposal. Multi-year expenditure estimates are presented annually by aggregated institutional, functional and economic classifications. Unlike more complex multi-year budget approaches, the multi-year estimates in Austria are not produced concurrent with the annual budget. While the annual budget proposal is submitted to Parliament in October, the multi-year budget estimates are published in June along with the government's multi-year investment program. This separation between the annual budget and the multi-year component also reflects the fact that these documents are prepared by different divisions within the Budget Department of the Ministry of Finance.

#### *Multi-Year Budgeting in Germany*

In stark contrast to the simple nature of the Austrian multi-year budget process, the approach to multi-year budgeting taken in Germany integrates the multi-year budget estimates into a full-fledged medium-term financial plan.<sup>8</sup> The German approach to multi-year budgeting captures many of the potential benefits of multi-year budgeting. Multi-year revenue and expenditure estimates provide an assessment of the medium-term fiscal implication of current policies. If the multi-year estimates indicate that current government policies are not compatible with the government's medium-term fiscal strategy, corrective policies can be included in the medium-term financial plan. In addition to providing the backbone for a consistent and responsible fiscal approach, the multi-year financial plan also enhances the stability and continuity of the budget process, as one year's expenditure estimates become the starting point of the budget formulation process for the succeeding year.

The annual budget formulation process within the German federal government is preceded by a series of discussions with a number of advisory councils and coordination with the states (*Länder*) and local governments through the Financial Planning Council (*Finanzplanungsrat*). The Financial Planning Council is chaired by the Federal Minister of Finance and consists of representatives from all three levels of government. Through discussions at the Council, consensus is reached on the target level of aggregate expendi-

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7. In 1994, Austria began to develop its multi-year budget estimates into a multi-year fiscal plan, much like the German approach to multi-year budgeting. The current discussion summarizes the Austrian approach to multi-year budgeting that prevailed before the 1994 reforms.

8. Bundesministerium der Finanzen. *Das Haushaltsystem der Bundesrepublik Deutschland* (Bonn: 1996).

ture growth, the distribution of public resources across the three levels of government, and the permissible amount of government borrowing for the upcoming budget year plus the three following years. Since the recommendations of the Financial Planning Council are not officially binding, the effectiveness of the Council depends largely on its professional and political credibility. In practice, the leadership of the federal Minister of Finance in the planning process guarantees preeminence of federal objectives in the development of national policy.

As the formal beginning of the federal budget formulation process, the Minister of Finance issues a budget circular to all federal spending agencies, requesting that they provide expenditure requests for the upcoming annual budget and budget projections for the three following years based on the annual budget request. In preparing their spending requests, the spending agencies have to adhere to detailed instructions that are laid out in the budget directive, including a number of annual budget ceilings for components of the ministerial budgets and directions on how to develop the multi-year projections. The budget requests submitted by the line ministries include recurrent expenditures as well as capital investment expenditures.

Upon receipt of the expenditure requests from the spending agencies, the Ministry of Finance begins the process of reconciling the “top-down” imposed budget limits with the “bottom-up” expenditure requests. In the budget negotiation process, the annual budget requests and the multi-year expenditure projections are compared to the government’s medium-term fiscal strategy objectives. Successive rounds of negotiations ensue to reconcile each ministry’s budget request and projections with the framework of the medium-term financial plan. When the expenditure target is greater than the aggregated expenditure estimates, the surplus is designated as a general planning reserve which can be allocated at a later point when necessary or desirable. When expenditure estimates exceed the expenditure target for any year in the multi-year framework, the Ministry of Finance is responsible for preparing a proposal on how to introduce budget cuts in order to fulfill the government’s fiscal strategy objectives.

As part of the multi-year budget process in Germany, multi-year estimates are made for each of 1,200 revenue items and the 8,000 expenditure items in the federal budget. The culmination of the multi-year budget component of the German budget process is the medium-term *Federal Financial Plan (Finanzplan des Bundes)*, which is submitted to Parliament concurrent with the government’s annual budget proposal. However, the *Federal Financial Plan* only reports expenditure estimates for about forty functional spending categories; the detailed estimates are kept confidential by the Ministry of Finance.

#### *Multi-Year Budgeting in Great Britain*

Great Britain should be considered the pioneer of multi-year budgeting, as it began the practice of conducting multi-year public expenditure surveys as early as 1961.<sup>9</sup> The central

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9. Hugh Heale and Aaron Wildavsky. *The Private Government of Public Money: Community and Policy Inside British Politics* (London: Macmillan, 1974): 209.

element of the British approach to multi-year budgeting is the pursuit of budgetary discipline, policy rationalization, and expenditure efficiency by placing expenditure decisions in a multi-year context.

The emphasis on fiscal discipline and efficiency is not unique to the multi-year budget process in Great Britain. As the result of historical ties and continued interaction between Great Britain and members of its Commonwealth, this feature is also found in other countries of the British Commonwealth, such as Australia, Canada, and New Zealand.<sup>10</sup> Therefore, this approach emphasizing fiscal disciplines and expenditure efficiency could be referred to as the “Commonwealth” approach to multi-year budgeting.

The multi-year budget approach in Great Britain provides policymakers with a medium-term view of budgetary policies, focusing on the multi-year impact of expenditure commitments and on the measures necessary to achieve the government’s medium-term economic objectives. In addition, the multi-year estimates provide continuity and stability to the budget process, as budget estimates made this year will be updated and provide the starting point for the subsequent year’s budget formulation process. The multi-year budget approach allows the government to determine its annual fiscal policy with recognition of funding and resource constraints for the following years. A peculiar feature of the multi-year budget process in Great Britain is that the multi-year dimension of the budget process is geared toward the expenditure side of the budget. While an expenditure plan is produced for three years, tax policy proposals are only included for the annual budget under consideration. However, multi-year revenue estimates are produced for the remainder of the three-year period.

The formulation of the annual budget proposal and the multi-year budget strategy starts in late spring or early summer when the Chancellor of the Exchequer (the head of the Treasury), along with his senior advisors and the heads of the Inland Revenue Service and the Customs and Excise Service, sets forth the fiscal strategy for the coming three years.<sup>11</sup> The government’s medium-term fiscal strategy guides the multi-year budget formulation process and is formally published at the time of the annual presentation of the budget to Parliament in November.

Upon determination of the fiscal strategy in early summer, the Cabinet Committee on Public Expenditures, led by the chancellor and comprising the chief secretary and several senior ministers, establishes aggregate and departmental expenditure limits for the multi-year period, referred to as “Control Totals.” When the multi-year Control Totals have been established, the government conducts a review of its existing spending commitments for the next two fiscal years, and develops a projection for a new third year. This review is known as the Public Expenditure Survey (PES).<sup>12</sup>

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10. For a review of recent budgetary developments in Canada, see Organization for Economic Cooperation and Development. *Budgeting in Canada* (Paris: OECD, 1999).

11. Her Majesty’s Treasury. *A Budget Guide: A Compendium of Budget Information* (London: <http://www.hm-treasury.gov.uk/pub/html/budget96/>, November 1996).

12. A history of public expenditure surveys in the U.K. as well as details on the intricate administrative and ministerial politics involved with the execution of the PES are contained in Hecla and Wildavsky, *The Private Government of Public Money*, 198–263.

In Great Britain, the individual line departments are responsible for determining program priorities within the limits set by the Treasury, a practice followed in other Commonwealth nations. The line departments are given extensive authority in the budget formulation process to shift fiscal resources within their own departmental budgets to provide funding for higher-priority programs, while reducing or eliminating lower-priority programs. In doing so, the departmental budgets have to comply with the departmental control totals, which identify not only aggregate departmental expenditure limits but also place limits on departments' running costs, such as wage bills. In recent years, the Treasury has constrained administrative and wage spending of line departments in order to induce cost-saving behavior in governmental units and increase efficiency within the public sector. The general policy has been that pay and price increases should be offset, or more than offset, by increased efficiency gains. Line departments that are in need of additional fiscal resources can submit requests for additional resources with the corresponding line divisions within the Treasury. The line divisions then work with the spending departments to reconcile the expenditure limits with the spending requests.

As in other Commonwealth countries, the multi-year budget in Great Britain is not presented in a separate document. Instead, the multi-year budget is fully integrated into the annual budget and presented to Parliament as a component of the *Financial Statement and Budget Report* (FSBR), the government's budget proposal. Besides the government's annual budget proposal, the FSBR includes the government's *Medium-Term Financial Strategy*, a short-term economic forecast, an analysis of tax measures contained in the budget, and an analysis of the public finances in the *Public Sector Borrowing Requirement*.

#### *Multi-Year Budgeting in Australia*

Australia's multi-year budget approach is another example of the "Commonwealth" approach to multi-year budgeting, in which multi-year budget estimates and flexibility at the departmental level are integral parts of the government's strategy to encourage efficient use of public resources and fiscal discipline.<sup>13</sup> Until recently, and unlike other Commonwealth nations, the forward estimates in Australia were not made by the line departments themselves, but rather by the Department of Finance.<sup>14</sup>

A medium-term fiscal strategy was introduced by the Australian government in the early 1980s as a means of achieving particular fiscal objectives. The main concern of the Australian government at that time was the excessively high level of government spending and the resulting high tax burden. Reductions in both the level of government spending as well as the level of taxation became the government's medium-term strategic objectives. The *Charter of Budget Honesty Act* of 1998 formalized Australia's multi-year budget ap-

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13. Organization for Economic Cooperation and Development. *Modern Budgeting* (Paris: OECD, 1997).

14. In 1998, the Australian Department of Finance introduced a new financial management information system, allowing individual departments to determine their own forward estimates. See Note 16.

proach, requiring that the government's medium-term fiscal strategy be reviewed and updated annually, and published as part of the government's *Budget Papers*.

The forward expenditure estimates, which until 1998 were produced by the Australian Department of Finance but are now produced by the line ministries, quantify the cost of ongoing policies as well as proposed government initiatives for the coming budget plus three more years.<sup>15</sup> These forward estimates are an integral part of Australia's centralized system of financial information management.<sup>16</sup> The forward estimates do not include any allowance for the introduction of new programs or expansion of existing programs, unless already announced by the government. At the beginning of the budget formulation process for the next fiscal year, the forward estimates are updated and the expenditure baseline becomes the basis for next year's budget proposal. The focus of the ensuing budget preparation process is not the level of expenditures *per se*, but rather the incremental changes in expenditures necessary to synchronize the budget with the government's medium-term fiscal strategy objectives and policy priorities. Unless additional funding is approved by the Cabinet, line departments are forced to find funding for new or expanded programs from within their own departmental budget as determined by the departmental expenditure baseline.

Four documents are circulated as part of Australia's Budget Papers. The first budget paper (*Budget Strategy and Outlook*) contains the fiscal strategy statement, the economic outlook, and general budget projections; the second budget paper (*Budget Measures*) contains the proposed budget measures for the next fiscal year along with detailed multi-year budget estimates; the third budget paper (*Federal Fiscal Relations*) describes the state of intergovernmental relations; and the fourth budget paper (*Commonwealth Public Account*) contains the appropriation bills for the coming fiscal year. All four budget papers incorporate a medium-term framework and include multi-year estimates.

#### *Multi-Year Budgeting in New Zealand*

The budget process in New Zealand has undergone a series of important reforms in the past decade. Dominant among these reforms are the *Public Finance Act* of 1989 and the *Fiscal Responsibility Act* of 1994, which are at the basis of the multi-year budget process now in place in New Zealand.<sup>17</sup> Like other examples of the Commonwealth approach to multi-year budgeting, the overriding objective of the budgetary reforms in New Zealand

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15. Australian Department of Finance. *Overview of the Budget Process* (Canberra: <http://www.dofa.gov.au/pubs/budgproc/htoc.htm>, May 1996).

16. In 1997, the Australian government moved to implement an accrual-based resource management framework. As a result, the Finance Information on Resource Management system (FIRM) was replaced in 1998 with the new Accrual Information Management System (AIMS). Under the new system, line ministries and government agencies are responsible for generating forward estimates themselves; AIMS will then simply consolidate the budget data and forward estimates for all line ministries.

17. Graham C. Scott. *Government Reform in New Zealand* (Washington: IMF, 1996).

has been to devise a means to impose greater fiscal discipline on the government by increasing transparency and accountability in the budget process. Multi-year projections further function as an early detection mechanism for government policies that diverge from the government's strategic fiscal objectives of reducing the fiscal deficit, the level of public debt, and the size of the public sector. Systematic reporting requirements throughout the budget process enhance the transparency, efficiency, and accountability of the resource allocation process.

Although the *Fiscal Responsibility Act* of 1994 does not require that specific medium-term fiscal targets be set, it does seek to achieve several distinct fiscal objectives and principles.<sup>18</sup> In addition, the *Fiscal Responsibility Act* requires that budget estimates be produced for the budget year under consideration and two additional years. By not imposing specific numerical targets in the *Fiscal Responsibility Act*, New Zealand's multi-year budgeting process affords greater policy flexibility for the government to respond to changes in general economic conditions.<sup>19</sup>

The budget process in New Zealand is highly devolved and places a large share of the responsibility for financial management at the ministerial level. Consistent with this philosophy, the multi-year estimates in New Zealand are produced by the line departments. Since 1991, New Zealand has adhered to the practice of incremental budgeting by which spending agencies are asked to update last year's forecasts of their expenditure baseline by using a set of Treasury guidelines that are endorsed by the Cabinet. Additional funding requests are then specified as the change from this baseline level. The departmental expenditure baseline estimates submitted to the Treasury by the line departments cover the upcoming budget year as well as outward estimates for the following two years.<sup>20</sup>

The Treasury guidelines for the preparation of ministerial multi-year expenditure estimates include several features to encourage fiscal discipline and efficiency. Departments are often asked to find resources within their own departmental budget for new programs. Departments are also warned that under normal circumstances they will not receive compensation for increases in their input costs; extra funding is only provided where expenditures are determined by statute (for example, welfare benefits) or for major government initiatives. In addition, departments that seek funding for capital projects

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18. The five objectives pursued by the Act are: (1) reducing public debt to more prudent levels by containing the cost of general government operations below the level of annual operating revenues; (2) sustaining prudent debt levels over time; (3) establishing reserves as a precaution against budget and/or economic crises; (4) adopting sound management practices to deal with potential risks to the government; (5) adopting management practices supportive of, and consistent with, maintaining a stable and sound tax policy.

19. For instance, the flexibility given to New Zealand's government has allowed it to make rapid adjustments in fiscal policy in response to the effects of a severe drought and the Asian economic crisis of 1998. New Zealand Treasury. *Budget Policy Statement 1999: December Economic & Fiscal Update* (Wellington: December 1998): 1.

20. An illustration of the high degree of devolution of the multi-year budget process in New Zealand is the fact that if disagreement arises between the Treasury and one of the line departments about the forward estimates, the ministerial projections prevail, leaving the Treasury to challenge their validity.

are required to prepare strategic business plans and sound business cases to support their bids.

In order to create a high degree of transparency, three key documents are produced throughout the year as part of the budget cycle. First, concurrent with the second reading of the budget in Parliament, the government must submit its *Budget Policy Statement* to Parliament. This document outlines the government's short-term fiscal plan, as well as medium-term strategic fiscal policy objectives. Second, a *Fiscal Strategy Report* must be published at the time of the final submission of the budget to Parliament. The *Fiscal Strategy Report* contains updated fiscal estimates and addresses any differences between the budget and the objectives and strategies reported in the *Budget Policy Statement*. Third, multi-year fiscal and economic projections (*Budget Economic and Fiscal Updates*) must be published twice each year, which are compared to independent estimates produced outside the government.<sup>21</sup>

### *Multi-Year Budgeting in the United States*

The federal budget process in the United States contains several multi-year elements.<sup>22</sup> Most importantly, actual multi-year appropriations are included in the budget for certain capital projects. In addition, the Budget of the United States Government includes expenditure and revenue estimates for the coming budget year and four additional years. The purpose of the multi-year budget estimates contained in the federal budget is to provide a multi-year framework for current fiscal policy decisions, so as to ensure that these decisions are compatible with the government's medium-term fiscal strategy of deficit containment. The multi-year expenditure estimates also provide an informal starting point for the formulation of the annual budget for the following year.

The medium-term fiscal strategy in the United States can be described and understood best in the context of specific legislative acts and the motivation of those legislative actions. The *Budget Enforcement Act* (BEA) of 1990 significantly reformed the existing budgetary process and set forth overall expenditure limits with the goal of achieving a balanced federal budget.<sup>23</sup> The BEA distinguishes between two types of spending: *discre-*

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21. A unique feature of the documentation requirements in New Zealand is that special provisions are made during election periods to prevent manipulation of the economic and fiscal outlook.

22. While this review focuses on the federal budget process, there exist a variety of multi-year budgeting practices at the subnational level in the United States. In particular, twenty of the fifty states in the United States use some type of biennial budget which determines government revenues and appropriates expenditures for a period of two years. Many local governments also use multi-year forecasts as part of the budget preparation process. For a discussion of these issues, see Louis Fisher. "Biennial Budgeting in the Federal Government," *Public Budgeting and Finance* 17 (Fall 1997): 87–97; John P. Forrester. "Multi-year forecasting and municipal budgeting," *Public Budgeting and Finance* 11 (Summer 1991): 47–61.

23. In 1996, the Congress extended the BEA through the year 2002 in legislation commonly referred to as the *Balanced Budget Act*; the objective of the Act is to maintain a balanced budget through the year 2002.

*tionary spending* and *direct spending*.<sup>24</sup> To ensure that overall budget spending limits are effectively followed, the BEA provides for a procedure called sequestration for discretionary budget items. If the Congressional appropriations provide expenditure authorization in excess of the discretionary spending limit set forth by the law, then all discretionary spending programs are automatically reduced by a common percentage sufficient to bring the prospective spending levels into balance with the spending limit or budget cap.

In order to ensure that proposed government policies fall within the projected expenditure limits for future years, medium-term expenditure estimates are contained in the president's budget proposal that reflect the cost in future years of ongoing and proposed government programs and policies. Similarly, revenue estimates in the budget proposal reflect the amount of tax collections projected based on currently enacted and proposed tax legislation. These multi-year estimates thus demonstrate the impact of current and proposed policies on future fiscal outcomes such as the federal deficit.<sup>25</sup> Additionally, the *Analytical Perspectives*, a document published concurrent with the president's budget proposal, contains "current service estimates," which are designed to show what receipts, outlays, deficits, and budget authority would be in future years if no changes in policy were made.

An important element of the multi-year dimension of the U.S. annual budget centers on the difference between *budget authority* and *outlays*. Budget authority is the authority that is given to line departments to enter into obligations that will result in immediate or future outlays of government funds. Outlays are actual expenditures made from government resources. In the American budget process, the Congress does not vote on the level of outlays directly, but rather on budget authority. Budget authority is recorded in the budget as the dollar amount in the year that it becomes available. While budget authority normally expires after one year, in certain cases the unused balance of budget authority may be carried over into the next year.

For major procurement programs or construction projects, an amount adequate to complete the project or programs must be requested by the executive to be appropriated by Congress the first year, even though the project may last more than one year.<sup>26</sup> The unspent remainder does not have to be reappropriated next year, but can simply be carried over to the next budget year. This policy is intended to ensure continued funding of multi-year projects and programs that cannot be used until they are completed. However, for certain capital assets, the budget includes a request for a regular appropriation in the budget year and advance appropriations of budget authority in subsequent years, that are

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24. Simply stated, discretionary spending is spending approved in annual appropriation bills for such items as salaries and governmental operating costs. On the other hand, "direct" or mandatory spending is linked to (and authorized by) separate legislation that does not necessarily change from year to year, such as social security programs.

25. U.S. Office of Management and Budget. *Analytical Perspectives: Budget of the United States Government*. (Washington: Government Printing Office, 1997).

26. OMB, *Analytical Perspectives*, 343–44.

together sufficient to fully fund the acquisition of these capital assets. This is done to avoid “spikes”—large amounts of budget authority that cannot be accommodated under the discretionary budget caps imposed by the BEA. In this sense, the United States has a multi-year capital budget to the extent that such multi-year appropriations are used for capital projects.

Organizationally, both the Office of Management and Budget (OMB) and its congressional counterpart, the Congressional Budget Office (CBO) are given significant responsibilities in making the required spending and revenue estimates necessary for determining the need for sequestration. Each agency prepares its own estimates, and any differences in the sets of estimates must be made public and explained by the OMB. The OMB estimates are the basis of the president’s sequester order, and the president is under the obligation not to change the OMB estimates. The General Accounting Office (GAO) reports to Congress on the president’s compliance with the rules and procedures imposed by the Budget Enforcement Act.

#### **IMPLICATIONS FOR THE BUDGET PRACTICES IN DEVELOPING AND TRANSITIONAL ECONOMIES**

Clearly multi-year budgeting has not been a panacea for resolving budgetary issues, but it has been a useful fiscal policy tool for developed, market-based economies. Multi-year budgeting has been instrumental to the success of these countries in their efforts to improve fiscal discipline in the public sector. It also appears that multi-year budgeting has been a useful tool in the drive to increase the efficiency of public expenditures. Although multi-year budget approaches carry the risk of introducing rigidities and inertia in the budget process, there is no evidence that those risks have materialized in developed economies. Based on the actual country reviews, we would judge that the experiences with multi-year budgeting have consistently been positive.

While all OECD countries now use some version of multi-year budgeting, an incipient number of TLDCs are also adopting multi-year budgeting approaches (as reviewed at the beginning of this article). However, some disagreement exists whether multi-year budgeting would be a worthwhile construct in the budget process of developing or transitional economies. Skepticism arises from the fact that many developing and transitional economies face serious problems in the formulation and execution of their annual budget. The basic question is whether it would make sense for these countries to introduce multi-year elements into the budget process if they are already failing to implement the annual budget in a consistent manner. The main answers are, first, that it is the absence of an appropriate multi-year strategy for fiscal policies in these countries that plays a major role in perpetuating their fiscal distress; and second, that while it would be ill-advised for a developing or transitional country to seek to implement a complex multi-year budget approach, they could certainly benefit from a simpler multi-year framework. In fact, the review of the multi-year budget practices above does contain a number of valuable lessons for the

possible introduction of multi-year budget components in the budget process of developing and transitional economies.

*Lesson 1: Recognize the Value of a Multi-Year Budget Perspective*

Developing and transitional economies often face an array of budgetary problems, including increasing debt burdens, chronic underfunding of government programs, unpredictable budgetary flows, the existence of budget arrears, and other symptoms of failing budget processes. Consequently, an argument could be made that budgetary reform efforts under these conditions should focus on the improvement of the annual budget process and leave the introduction of a multi-year budget approach for later reforms. However, in our view, concentrating all efforts on the improvement of budget execution solely within the context of the annual budget would overlook the close connection between the annual budget formulation process and the longer-term budgetary problems faced by many developing and transitional economies. Indeed, any budgetary process that fails to prioritize expenditures over the medium term, or that fails to internalize the linkages between budget decisions in the current year and expenditure requirements in subsequent years, is exposed to inconsistencies and, ultimately, failure.

Introduction of a multi-year dimension in the budget process of a TLDC (or the transformation of a multi-year development plan into a true multi-year budget strategy) could improve the budgetary process in a variety of ways. Perhaps most important, a multi-year budget framework could make a substantial contribution to correcting the perennial fiscal problem in these economies: the imbalance between the available resources and the government's expenditure commitments. Placement of the budget in a medium-term context would provide a framework for these countries to analyze fiscal strategy issues and provide a mechanism to build a political consensus on national priorities. The multi-year dimension would also allow for the structural review and prioritization of expenditure commitments as opposed to the arbitrary across-the-board cuts which are often relied on in the absence of a clear multi-year framework. In this application, multi-year estimates would serve as a tool to increase the efficiency of the public resource allocation process.

There are other potential benefits that would derive from the inclusion of a multi-year dimension in the budget process of developing and transitional nations. Multi-year budget estimates could provide a projection of fiscal outcomes under alternative economic conditions. In this sense, multi-year budget estimates would function as an early warning signal for policies that are not compatible with the medium-term fiscal objectives of the government. A multi-year budget approach could further be used to provide stability and continuity to the budget process by using this year's expenditure forecasts as the starting point for the annual budget formulation process for next year. Finally, a multi-year budget strategy could encourage increased involvement of line ministries in the budget process. These various objectives of the multi-year dimension are by no means exclusive or incompatible. As demonstrated by the review of international practices, most governments pursue a combination of these objectives simultaneously.

## *Lesson 2: One Multi-Year Budget Approach Does Not Fit All*

A relevant observation when considering the introduction of multi-year budget components in a TLDC is that substantial differences exist between the respective approaches to multi-year budgeting in the six developed economies reviewed earlier. Differences in multi-year budgeting approaches are caused by differences across countries in policy objectives, budget institutions and traditions, administrative capabilities, or differences in the availability of administrative resources. Thus, each multi-year budget approach reviewed was specifically designed to uniquely suit the particular policy needs and fiscal conditions in each respective country.

For example, one of the most complete approaches to multi-year budgeting is the development of a detailed multi-year tax and expenditure plan such as the *Federal Financial Plan* in Germany. The German multi-year financial plan enhances the budgetary process in several ways. Most importantly, the financial plan ensures that the government's fiscal policies are consistent with the country's economic policy objectives and the government's medium-term fiscal strategy. In addition, if executed properly and updated frequently, multi-year financial plans provide a high degree of certainty about future fiscal policies and provide continuity to the budgeting process. In combination these elements results in a very systematic development of fiscal policy.

However, the integrated multi-year financial plan used in Germany has several disadvantages and is not widely applicable outside the German context. First, the formulation of an integrated multi-year financial plan is quite complex and administratively very demanding. In addition, the use of a full-fledged multi-year financial plan requires strong political and social consensus, which may be absent in developing and transitional economies. Finally, given the rapid economic and institutional changes that often take place in developing and transitional economies, a multi-year financial plan is too rigid for many of these countries.<sup>27</sup> Therefore, in many cases the introduction of a multi-year financial plan would neither be feasible nor desirable.

Another comprehensive approach to multi-year budgeting is pursued in New Zealand. In New Zealand, many budget responsibilities (including the development of multi-budget estimates) have been devolved to the spending agencies through a system of formal contracts. The reliance on contracts within the government sector is possible because the country has a strong private sector, established mechanisms for enforcing contracts, a high degree of transparency in the allocation of public resources, and efficient public expenditure controls. Many of these features are missing or are not sufficiently developed in TLDCs. Adoption of New Zealand's budgetary approach by most of these countries would result in certain failure.<sup>28</sup>

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27. Indeed, the rigidity introduced in many multi-year development plans by multi-year fiscal commitments is a central factor in the general failure of these plans.

28. Allen Schick. "Why Most Developing Countries Should Not Try New Zealand Reforms," *The World Bank Research Observer* 12 (February 1998): 123–31.

In fact, it would be unwise for a developing or transitional country to duplicate any of the reviewed multi-year budget approaches simply because the approach has proven to be successful in the context of some other country's budget process. Instead, a more advisable approach would be for each developing or transitional country to first carefully consider its own budget institutions and its policy objectives in introducing a multi-year budget approach. Then, guided by the review of international practices, each country should attempt to develop its own multi-year budget approach with the idea of capturing the benefits of multi-year budgeting within the context of the country's specific policy objectives, budget institutions, and the relevant institutional and administrative constraints.

### *Lesson 3: The Development of a Multi-Year Budget Approach is a Gradual Process*

The history of most countries' practices suggests that the introduction of a multi-year budget approach is a gradual process in which elements of the multi-year budget are first introduced and tested, and then are modified over time as the budget formulation process evolves. Arguably, the appropriate starting point for the development of a multi-year budget approach in TLDCs is a basic approach, as discussed immediately below. Over time, as administrative capabilities are enhanced, fiscal performance is improved, and the multi-year budget component becomes more established the basic approach can evolve into a more integrated and ambitious multi-year budget.

A basic approach to multi-year budgeting would consist of an annual budget cycle that is enhanced by a simple multi-year budget framework comprising, first, a statement of the government's medium-term fiscal strategy (defined in terms of major targets such as overall tax burden and the size of the deficit) and, second, aggregate multi-year expenditure and revenue projections. The multi-year budget document could be presented either at the beginning of the budget cycle (as is done in Austria), concurrently with the annual budget (as in most other countries), or more than once during the budget process (as in New Zealand). Presenting the multi-year budget framework concurrently with the annual budget would better allow the government to place the current budget debate in a multi-year context and help bring more realism and improved fiscal discipline to the annual budget. In particular, the multi-year revenue and expenditure projections would serve to frame fiscal policies within well-defined medium-term objectives and would provide an early warning signal for budget policies that are inconsistent with the government's medium-term fiscal strategy. These projections may also help enhance the transparency of the budget process by forcing discussion on budget priorities and promoting a consensus on medium-term fiscal objectives. In addition, updated aggregate multi-year expenditure estimates could serve as the (informal) starting point for the following budget cycle, thus providing the benefits of a rolling budget without having to put together a detailed multi-year expenditure plan.

Although the sophistication and the complexity of New Zealand's approach to multi-year budgeting makes it unsuited for duplication by TLDCs, there is one aspect of New Zealand's approach that should be given careful thought by TLDCs. The systematic publication and updating of the government's fiscal strategy and the fiscal outlook can en-

sure more informed decision making, a greater degree of continuity in the budget process, as well as greater levels of transparency and efficiency in the budget formulation process. Since the fiscal strategy of any government needs to be widely understood, both within the executive and legislative branches as well as by the public at large, there is an advantage to publicizing the government's strategic goals (possibly along with preliminary multi-year revenue and expenditure estimates) early on in the budget process. Later on with the transmission of the annual budget to the legislature, the fiscal strategy could be updated with a description of any departure from the fiscal strategy and budget estimates specified in the earlier multi-year budget document.

#### *Lesson 4: The Importance of Government-Wide Involvement*

The degree of centralization or decentralization of administrative responsibility in preparing multi-year budget estimates is a political choice that carries with it significant implications for the division of power between the Ministry of Finance and the spending agencies, as well as for the efficiency with which public policies are implemented.

Traditionally, government agencies in TLDCs have been almost exclusively focused on the implementation of sectoral policies within their purview and only minimally involved in the budgetary process. This narrow policy focus of the line ministries often results in the submission of inflated budget requests by departments and other spending units, antagonistic relationships between the Ministry of Finance and the spending agencies, and the absence of controlled and fiscally responsible behavior during budget execution. A more explicit statement of the government's medium-term strategic goals as part of a multi-year budget dimension, and the involvement of departments and line ministries in developing sectoral strategies, could provide these agencies with a sense of common purpose and could spur more fiscally responsible and cooperative behavior.

While experiences vary between countries, recommendations for the organizational structure and the assignment of the responsibility for the development of multi-year revenue and expenditure estimates in TLDCs will generally be influenced by the traditional centralization of budget responsibilities within the Ministry of Finance. Due to the traditional absence of budget discipline among the spending agencies and the lack of institutional cooperation with the Ministry of Finance, in many TLDCs it may be more desirable to concentrate the development and maintenance of the multi-year budget estimates, at least initially, within the Budget Department of the Ministry of Finance, preferably by a separate division within the Budget Department. While this division should be the central player in the development of the multi-year budget estimates and the production of the medium-term financial strategy, it could coordinate its activities with other divisions within the Ministry of Finance (specifically, the divisions responsible for macroeconomic policy and revenue forecasting) as well as the individual line ministries.

The initial centralization of the responsibilities for the multi-year budget process in TLDCs has a number of distinct advantages. First, centralized assignment of responsibilities may prove to be the simplest, most economical, and administratively most feasible ap-

proach. Second, centralized development of the multi-year estimates would facilitate the timeliness and frequency with which estimates can be made. Third, control over the estimates by the Budget Department will prevent possible strategic manipulation of the multi-year estimates by the line departments.

The concentration of full responsibility for the multi-year budget process within the Ministry of Finance should not be a permanent arrangement. The major disadvantage of this approach is that it limits the exposure and involvement of line ministries in sectoral policy prioritization and the identification of cost-cutting opportunities. However, devolution of the responsibility for multi-year budget estimates in the absence of centrally determined expenditure limits would not be prudent or effective.<sup>29</sup> Gradual devolution of responsibilities for the multi-year expenditure estimates could constructively increase the involvement of line ministries in the budget process without relinquishing central control over the budget expenditure envelope.<sup>30</sup>

#### *Lesson 5: The Importance of Producing Reliable Multi-Year Budget Estimates*

As part of any multi-year budget approach, multi-year estimates are typically made for government revenues and government expenditures, including multi-year capital expenditures. The success or failure of the multi-year budget approach as a fiscal policy and management tool depends in large part on a government's ability to produce reliable and accurate medium-term budget estimates.

*Multi-Year Revenue Projections.* Conceptually, the first step in producing a multi-year fiscal outlook is the estimation of future revenues, since the aggregate revenue forecast provides the fiscal envelope for government spending in future years.<sup>31</sup> Conditions for developing authoritative multi-year revenue forecasts for budgeting purposes include the requirements that: (a) the estimates are made by fiscal experts that are outside the political process, (b) objective quantitative analysis methods are used to develop the revenue forecasts, and (c) the revenue estimates are frequently updated. The dangers of inaccurate or politically motivated revenue forecasts are abundantly apparent. Recent experiences in many TLDCs bear witness to this. When given a chance, many politicians would be tempted to rely on, and even promote, overly optimistic revenue estimates for future years in order to accommodate higher expenditures in the current budget year.

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29. A number of preconditions can be specified for the successful devolution of budgetary responsibilities. These preconditions include the development of robust public institutions that operate according to formalized rules and regulations and follow sound management practices, as well as the establishment of external budget controls. See Allen Schick, *Why Most Developing Countries Should Not Try New Zealand Reforms*, 129–31.

30. See, for example, The World Bank, *Public Expenditure Management Handbook*, 92–93.

31. The presumption that revenue forecasts provide the appropriate starting point for fiscal strategy purposes holds especially true for developing and transitional countries, where the government control of revenues is often poorer than its grip on expenditures.

Several administrative practices can be adopted to increase the prudence of the multi-year revenue estimates. First, revenue estimates could be based on economic projections that are slightly more pessimistic (e.g., based on slightly lower economic growth or slightly higher interest rates) than the “consensus” economic outlook. Alternatively, the fiscal outlook could include two separate sets of revenue projections: one set that reflects the most likely economic scenario and another set that reflects the fiscal situation under less favorable economic conditions. Second, budget procedures may require the government to compare the Ministry of Finance or Budget Department’s revenue estimates with revenue estimates from a separate source. The source of these comparison revenue estimates generally could be an independent government agency, such as the central bank or a parliamentary budget office. If such alternative estimates are not available, it would be possible to use the revenue estimates from an international organization (such as the International Monetary Fund or the World Bank) or an independent domestic source (such as major financial institutions or academic research organizations). Indeed, there is a growing trend among OECD countries to ensure prudence in forecasting by submitting their internal economic forecasts to external review.<sup>32</sup>

*Multi-Year Expenditure Projections.* The review of international practices reveals that medium-term revenue and expenditure forecasts are often made at a high level of detail. For example, the German Ministry of Finance produces forecasts for 8,000 expenditure items and 1,200 revenue items. Countries that include the multi-year budget forecasts in the annual budget document produce forecasts for every line item in the budget.

Yet despite the large number of forecasted budget items, often only a few basic “driving variables” are used to arrive at the forecasts. Frequently, expenditure items are simply expected to grow over time at the pace of inflation. This is the case, for example, for most discretionary expenditure projections in the United States budget.<sup>33</sup> However, the accuracy of expenditure forecasts may be increased by using different assumptions for major items in the economic classifications of the budget, such as wage expenditures, other current expenditures, and capital expenditures.

An additional element that is regularly included in the forecast methodology for budget expenditures is sectoral trends. For example, financing needs for elementary and secondary education are likely to be proportional to the number of school-aged children. Similarly, expenditures for statutory government programs can often be estimated by combining expected social, economic, and demographic trends and knowledge about legislative requirements. For example, expenditure estimates for pension benefits in Australia are produced by multiplying the average pension rate in the current budget year by the projected number of pensioners and the projected price index.<sup>34</sup> As a result, a select num-

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32. Organization for Economic Cooperation and Development. *Statement by the Chairman at the Twentieth Annual Meeting of Senior Budget Officials* (Paris: OECD, 1999).

33. OMB, *Analytical Perspectives*, 348.

34. Australian Department of Finance. *Economic Parameters Menu* (Canberra: <http://www.dofa.gov.au/bestinfo/>, October 1998).

ber of basic macroeconomic forecasts, demographic projections, and legislative factors could be combined to achieve a relatively detailed level of multi-year expenditure projections.

A particular challenge is presented by the inclusion of expenditure estimates for entitlement programs in a multi-year framework. During times of economic prosperity and growth the costs of the programs tend to be relatively low as few people need or qualify for benefits. This makes increasing benefit levels a politically attractive option. However, this means that increases in entitlement benefits could result in a double blow to fiscal stability during economic downturns as entitlement expenditures would balloon while government revenues would be falling. To complicate matters, entitlement programs are often not part of the annual appropriations process, and downward adjustments of benefits levels are generally not politically tenable. Unsustainable increases in entitlement benefits could be controlled in part by requiring the government to provide expenditure estimates under a “worst case” scenario, projecting the expenditure requirements of entitlement programs during economic recessions.

*Multi-Year Investment Planning.* An additional component to be considered in the development of a multi-year budget forecast methodology is capital spending, which in many countries is planned in the context of a Public Investment Program (PIP). In developing countries, PIPs are often developed outside the budget process for recurring government expenditures, and the responsibility for developing the PIP is frequently placed outside the Ministry of Finance, either with the Ministry of Economy or a specialized planning agency. Some transitional countries have also started to develop PIPs outside their regular budget process (for example, Kazakhstan in 1999). This separation between recurrent and capital expenditures contributes to the false premise that capital expenditures are more productive than recurrent expenditures. It also removes capital spending from the government’s fiscal policy strategy framework and frequently leads to an overcommitment of government funds.

A more consistent approach to capital budgeting would consider capital expenditure planning as an integral part of the multi-year budget process. This would help ensure that public investments are made within the government’s available resources and that these capital expenditures are consistent with the government’s policy priorities. Most countries considered in this review give special consideration to capital investment projects in context of the multi-year budget. For example, in Austria a multi-year investment program accompanies the multi-year budget estimates, while a review of multi-year investment projects is also explicitly incorporated in the German medium-term financial plan. The United States budget actually has multi-year appropriations for certain capital items in the budget. The hybrid approach taken in the U.S. guarantees sufficient funding for large capital projects while also ensuring that government spending remains consistent with the government’s multi-year fiscal strategy objectives. In TLDCs, until a multi-year budget is developed, the economic efficiency of the PIP would be significantly increased by bringing capital investment decision and planning closer to the ordinary budget process.

## CONCLUDING REMARKS

The main goals of this article have been to provide an overview of the international experience pertaining to multi-year budget practices, and to explore their relevance to transitional and developing economies. Because of the complexity and vastness of the subject, the review of the international experience focused on specific aspects of the multi-year budgeting approach, including the purpose, organizational structure, and implementation of the multi-year budget process.

The multi-year budget practices in developed countries contain several lessons for governments of developing and transitional economies. Depending on the desired approach, multi-year budgeting techniques can enhance the budget process in a number of ways. While more integrated approaches to multi-year budgeting (such as medium-term financial plans) present the greatest number of advantages, more complex approaches are also more demanding in terms of administrative resources. Consequently, it may be desirable for governments of developing and transitional economies to follow a strategy that starts with a more basic approach to multi-year budgeting (which can still offer significant benefits, such as forewarning potential fiscal imbalances in future years and enhancing aggregate budget discipline) and to evolve the multi-year budget framework into a more integrated approach over time.

Regardless of the approach chosen, there are significant benefits to be derived by TLDCs from the systematic publication of the government's medium-term fiscal strategy as well as a medium term economic and fiscal outlook. These documents provide government officials, legislators, and the public at large with a multi-year perspective on economic and fiscal developments in a way that requires policy makers to be both realistic and responsible. Even in the absence of abundant administrative resources, the introduction of basic multi-year elements into the budget process can provide a framework for systematic analysis and improved decision making in the formulation of annual budgets. While certain potential risks are associated with the adoption of a multi-year budget framework (such as inflexibility and inertia in the budget process, overly optimistic multi-year projections which may induce overspending, and the excessive administrative costs of preparing a multi-year budget), the benefits of introducing a multi-year budget approach in TLDCs would appear to outweigh the risks.

## NOTES

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