

Medium Term Budgetary Framework Issues, Challenges and Prospects in Pakistan

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1. INTRODUCTION

In any economy governments' budgets play an important role in defining government or public action or inaction in pursuance of policy objectives. However, in many developing countries, there are less instances in which policy, planning and budget are linked together in order to have better outcome of public service delivery for the masses. In this backdrop, a new concept of reform surfaced known as Public Financial Management. In recent times, this concept has attracted much of the attention of the researchers for its efficacy in the public sector [Cangiano, Curristine, and Lazare (2013)] and more specifically in the context of formulation of Poverty Reduction Strategy Papers [Le Houerou and Taliercio (2002)]. When looking back in the 1990's different concepts emerged from donors primarily World Bank. These concepts are Medium Term Fiscal Framework (MTFF), Medium Term Expenditure Framework (MTEF), and Medium Term Budgetary Framework (MTBF). Theoretically, all these concepts differ slightly, however, practically, they serve the same purposes, i.e., to ensure transparency, accountability, and linking budgets with policy [Lawson (2000)]. To some researchers these concepts are the same [for instance, Begum (2016); Holmes and Evans (2003)], as it only looking the same thing (budget) from different perspectives. In this study the term MTBF are mostly used for being easily understood in Pakistani context.

The MTBF, as part of public financial management reform, implemented in Pakistan with support from the UK-Department for International Development (DFID) from 2003 to 2012. Later on, with the support from the European Union, this framework has been successfully implemented across the Government of Pakistan [for details see Hoole (2014)]. It is pertinent to note that MTBF has only been introduced and implemented in Federal Ministries and attached departments and not at provincial levels, with the exception of Khyber Pakhtunkhwa. However, in Khyber Pakhtunkhwa this reform programme is run under a project with the assistance of international donors (Sub-National Governance-DFID).

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Since this is the first study of its kind on the subject matter in Pakistan, therefore, this research warrants some background information on it, at national and international levels. The remainder of the paper is organised as follows. The Section 2 describes the available literature on MTBF and its different dimensions related to its efficacy and benefits. After this rationale and objectives are discussed in Section 3. In next Section 4 brief methodology on data collection and analysis are elaborated. The findings are discussed in Section 5. At the end conclusion is made and recommendations form Section 6.

2. LITERATURE REVIEW

The developing countries are generally blamed for poor budgeting outcome because they do not link policy, planning and budgeting together [Oxford Policy Management (2000); World Bank (1998)]. However, the developed world also faced such problems in the past. That is the reason that these problems are among the oldest in development literature during 1950s and 1960s. The quest for such solution started in 1970s and mid 1980s when it was realised that developed countries had become too expensive, big and intrusive. Then the developed world started contemplating “how to reconcile short-term urgencies with longer-term priorities; prevent fiscal stability from degrading into economic stagnation; find paths to sustainable growth with financial stability; complement growth with equity” [Schiavo-Campo (2009)].

The available literature evinces that medium and long term planning was earlier introduced by Australia to control expenditure growth, and more specifically the ‘forward estimates’ approach. This approach aimed at strengthening the link between policies, expenditure and affordability of policies, besides making arrangement for better outcomes [for details see Corbett (1998); Mundial (2013)]. The Australian approach works well, provided some pre-requisites are met for its successful implementation. These include among others, high level public integrity, vigorous mechanisms for administrative accountability, and stringent political discipline and apparatus. A question generally arises, that how many developing countries possess such pre-requisites? The answer to this question varies from country to country.

More recently, this medium term budgeting and forecasting is initiated by United Kingdom [for details see Premchand (1983) in Campo (2009)]. This system has been exported to many developing countries with some changes in the terminologies and justifications, however, the assumptions remained the same such as: accountability, transparency, public integrity and more importantly, the capacity. After the introduction of MTBF, different countries have different experiences. And difference should be there because the success or failure of this system has some pre-requisites that might not be available in the receiving or adopting country.

Before delving deep into the experiences of developing countries, it is pertinent to understand what this system is.

2.1. Understanding the Concepts

According to the World Bank’s handbook on public expenditure management, “the MTEF[MTBF] consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these

costs with available resources...in the context of the annual budget process” (1998a: 46). The top-down resource envelop means the fiscal targets and estimates of revenue and expenditure. Whereas the bottom-up estimates refer to scrutinising sector policies and activities. The handbook further suggests that an effective forum at governmental level is required in order to improve predictability and strengthening the links between policy, planning and budgeting. In addition, the forum should ensure and facilitate the making and enforcement of strategic decisions of resource allocation.

2.2. Objectives of MTBF/MTEF

There are six main objectives of the MTBF envisioned by World Bank (1998a). These objectives can be related to any country including Pakistan, these include:

- Improved macroeconomic stability and fiscal discipline
- Better resource allocation
- Improved budgetary predictability of line ministries
- Efficient utilisation of public monies
- Ensure greater political accountability for public expenditure outcomes through more legitimate decision making processes
- Greater credibility of budgetary decision making (political restraint)

Beside these objectives, the main focus of the World Bank is to link this new budgeting system with Poverty Reduction Strategies Programmes (PRSPs) and Millennium Development Goals (MDGs-now known as Sustainable Development Goals) in many developing countries.

2.3. Experiences of Developing Countries with MTBF

Few attempts have been made by researchers, primarily from donors’ side, to evaluate this system and to record the experiences of different developing countries. For instance, Holmes and Evans¹ (2003) have analysed eight countries *vis-à-vis* medium term framework in the context of poverty reduction strategies programmes. From their analysis they conclude that “[these systems]...are progressing in all [selected] countries, albeit at varying speeds, and that in many cases they have both facilitated, and are being strengthened...on implementing PRSPs... In countries where officials, particularly in the Ministry of Finance recognise the potential of a more medium term perspective to budgeting and are persistent in their advice to this effect at the political level, the prospects for the institutionalisation of improved budgetary systems, processes and outcomes are greatly enhanced.”

In their seminal study Houerou and Taliercio² (2002), undertake a comparative assessment of nine African countries, with respect to the design and impact of this new system on public finance and economic management. They opine that conceptually these [MTBFs/MTEFs] are ideal tools for translating poverty reduction strategies in public expenditure in coherent macroeconomic and fiscal framework. However, these alone

¹Their study was supported by Department for International Development (DFID) in collaboration with European Commission. For individual case studies and experiences of different countries, please refer to their study.

²Both authors work for the World Bank, hence being supported by World Bank.

cannot deliver improved public expenditure management in countries where budget execution and reporting are weak. In addition, they agree that each country's situation is distinct, however, political motivations and incentives for launching this system deem to be important for success in some African countries.

In order to determine whether medium term frameworks are panacea or dangerous distraction, Jones and Lawson (1999) has eloquently analysed the experiences of Organisation for Economic Cooperation and Development (OECD)³ and some African countries.⁴ With respect to OECD countries, they suggest that stringent conditions have to be fulfilled before the full benefits of medium term frameworks can be realised. However, they add that fulfilling these conditions for developing countries are gigantic task. By adopting medium term frameworks, it is generally believed that predictability are enhanced in organisational funding [IMF (1999)]. However, with the exception of South Africa, where it happened, in other African countries, such benefits have not been achieved yet. In another comprehensive study by World Bank (2013) ten⁵ countries experiences are shared. They compare the claims made by MTBF/MTEF that this system make budgeting more strategic, highlight resource constraints, foster cooperation between agencies, and improve fiscal discipline. However, after analysing these countries, it is concluded that “the positives for many countries may be exaggerated given persistent weaknesses” (: 52). The report further inform that “[this system] undoubtedly introduce additional complexity into budgeting...When countries move too fast, an advanced MTEF[MTBF] is likely to be badly designed and poorly implemented, which makes it less effective than a more basic MTEF[MTBF]” (: 53).

With specific reference to Bulgaria as case study, Horvath and Szekely (2001) discuss the role of medium term frameworks in pursuance of enhancing the credibility of macroeconomic policies and to facilitate in preparation for European Union membership. They embrace the notion that medium term frameworks can help in achieving policy objectives in Bulgaria and other transition economies. However, what have been achieved so far was not explored.

In another seminal work by Pradhan (2013)⁶ who explains the medium term budgeting system in the context of Nepal. He called this system as *sine qua none* for the development of the country. In this study he explains the factors that support MTBF in the country, however, he analyses the factors before implementation, rather, after the implementation. In addition, the researcher agrees that implementations have many challenges for the country.

With reference to Pakistan, this MTBF has not been in the limelight of academicians and researchers. Most of the researches and independent studies have been conducted by donors (mostly by Oxford Policy Management—Department for International Development).

³OECD is an international organisation of 34 countries where mostly have democratic system of government.

For details see https://simple.wikipedia.org/wiki/Organisation_for_Economic_Co-operation_and_Development retrieved on 05-09-2016.

⁴These include Malawi, South Africa, Ghana and Uganda.

⁵These include Brazil, Albania, Jordan, Ghana, the Russian Federation, Republic of Korea, South Africa, Uganda, Armenia, and Nicaragua.

⁶The paper is available on <http://www.pefa.gov.np/wp-content/uploads/2013/04/main-page.pdf> retrieved on 06-09-2016.

In their brief note, the Oxford Policy Management highlight that contextual factors are far more important in addressing financial matters and in introducing this new system. They agree that "...contextual factors play a significant role in shaping the success of PFM [Public Financial Management] reforms...the focus of reform discussions between governments and donors is often based on an implicit model of international 'best practice' which targets the external legitimacy of PFM systems, rather than the central role of PFM reforms in delivering domestic priorities and addressing immediate problems whilst recognising the constraints that apply" [2014: 1; see also Hedger and De Renzio (2010)]. In their opinion, three factors are pivotal for successful implementation of public sector reforms. First is the acceptance by institutions responsible for implementation, second is technical ability of the staff, and third is formal and informal mechanisms that authorise such ideas.

In Pakistan, the MTBF comprises of two major components.⁷ The first component is strategic 'top-down' and second is 'bottom-up'. The former involves the preparation of resource predictability or medium-term fiscal framework, and budget strategy paper for resource allocations; whereas, the later component focuses on preparation of output based budgeting (OBB) in line ministries. However, the sustainability of the system and for better outcome and output the commitments by Ministry of Finance is important, as the brief history of its implementation evinces that the progress have not consistent or linear. The implementation of MTBF in Pakistan comprises of two phases. The first phase (2003-2006), made no progress in implementing this new system as many issues were raised related to documentation, even this new approach was not appreciated within the Ministry of Finance. However, most of the activities were restricted to provision of training at the different levels in few pilot ministries. Consequently, arrangements were made to windup the project. Later on, after significant changes in the staffing in Ministry of Finance in 2008, explicit instructions were issued to take MTBF seriously. A rapid progress was made since then in federal ministries [for details see Hoole and Gray (2014)].

Prior to this system, Pakistan budgeting system was mostly incremental, and based on the previous year's budget without careful attention to the priorities of Government or the achievement of service delivery outcomes. The shortcomings of this traditional system of budgeting included:

- Lack of a clear link to the policies and strategies of government and the actual budget preparation process, driven in part by lack of a significant role for line ministries in the budget process.
- The extensive use of cuts in proposed budgets late in the preparation process, which meant that approved budgets bore little relation to budget proposals prepared by the ministry.
- Inadequate predictability in the budgetary process, which meant that ministries were unable to undertake proper medium term planning for delivery of their services.

The Pildat (2010: 8) has eloquently described some of the main differences in traditional budgeting and MTBF based budgeting, for details see Table 1.

⁷For details about budgeting process in Pakistan see <http://www.finance.gov.pk/process.html> retrieved on 20-09-2016.

Table 1

Comparison of Traditional and MTBF-based Budgeting

No.	Traditional Budgeting	MTBF-based Budgeting
1	Focus on Incremental Budgeting The budget is incremented from the previous year's budget/expenditure	Focus on Actual Cost and Value for Money Initially, existing costs are assigned across the outputs to which they contribute. Once outputs have been costed, a baseline can be established. A ministerial baseline budget is the amount of money a ministry requires to continue the existing level of services under existing policies and at existing levels of economy, efficiency and effectiveness. Over time, preparation of the budget focuses on calculating the budget required to achieve defined levels of output/service delivery and on achieving value for money.
2	Input Based Budget The budget primarily focuses on how many inputs (e.g. pay and allowances, inventory, fixed assets, etc.) are required. Inputs are amounts expended / consumed to achieve an output. In addition, the budget is prepared on the line-items of Chart of Accounts (e.g. Pay and allowances)	Output Based Budget The core of the MTBF is the introduction of output-based budgeting. The MTBF budget focuses on how many outputs and outcomes can be achieved with the resources available. Outputs are quantifiable / measurable results while outcomes are changes that take place as a result of outputs. <i>Example of Output:</i> number of students enrolled <i>Example of Outcome:</i> increase in literacy rate
3	No Linkages to Policy There is no direct mechanism for linking policies of a ministry to annual budgetary allocations	Linkages to Policy The MTBF requires ministries to identify their policy objectives and outputs and to link these to budgetary allocations
4	Lack of Predictability of Resources The fiscal resource availability is not tied up directly with the annual budgeting process	Fiscal Framework The fiscal framework is regarded as the starting point of the MTBF processes. The fiscal framework details the total revenue, expenditure, debt, etc. of the Federal Government. It helps in providing resources-based ceiling to sectors and ministries
5	Budgeting for ONE budget year Annual budget processes focuses on the upcoming budget year	Budgeting for THREE years Budget for ONE budget year plus the Forecast for additional TWO budget years. In total the MTBF looks at three years of estimates
6	The process of Budget Preparation within Line Ministries is bottom-up The budget preparation process within line ministries is based on the demand estimates forwarded by the Spending Units. There is currently no process that guides the Line Ministries in allocation of their budgetary resources in line with their strategic priorities.	The process of Budget Preparation within Line Ministries is driven from a top-down strategic allocation of resources The MTBF requires the line ministries to undergo a process in the beginning of the budget preparation process to strategically allocate budgetary resources to outputs of the highest priorities.

Source: Pildat (2010).

In addition with respect to predictability and transparency of the budget, Ahmad (2003) elucidates that budgets which are based on yearly bases are vulnerable to fluctuations and may cause major difficulties in meeting financial commitments or completing projects efficiently and on time. While referring to traditional based approach in Pakistan, he says that “often, the budget is based on incomplete or inadequate information, especially at the sectoral expenditure level, either because of poor planning or because line ministries hide true costs to get project approvals. These in turn can have serious adverse effects on efficient use of public resources. One possible option to improve the transparency and predictability of the budget is the use of medium term budgetary framework (MTBF)...A well-designed MTBF can be a powerful instrument for improved budgetary management, provided adequate capacity is in place including efforts to improve the information base.”

To what extent these objectives have been achieved, this research is going to analyse that in the context of Pakistan by undertaking case studies: one is Ministry of Religious Affairs and Interfaith Harmony; and second is National School of Public Policy. NSPP is an autonomous body of Establishment Division, having independent Principal Accounting Officer (PAO).

3. RATIONALE (AIMS AND OBJECTIVES)

The MTBF has been introduced in Pakistan in 2003 under the aegis of international donors. Though this budgetary framework came under the discussion of international organisations (Oxford Policy Management, DFID, World Bank) for its pros and cons, however, this has rarely been assessed for its implications at national level. Therefore, this research is an attempt to fill-in this gap. Since the scope of Medium Term Budgetary Framework is quite large, this research restrict itself to the implications of the new system in Pakistan. By implication, we refers to, what changes have been introduced in the perception of executing agencies, and whether the essence of this system has been fully understood and implemented or not. In order to make it success, what are the issues and challenges faced by executing agencies and what prospects are being envisioned?

Research question:

What are the implications of MTBF on budgetary system in Pakistan?

Research objectives

- To understand the difference between this new system and previous budgeting system.
- To understand new steps that have been added in the budgetary process.
- To highlight the issues, challenges and prospects of this new system, and to make recommendations for improvement.

4. RESEARCH METHODOLOGY

Although Medium Term Budgetary Framework (MTBF) has been introduced in the entire federal government ministries/attached departments/autonomous bodies, however in this research only two cases i.e., Ministry of Religious Affairs and Inter-faith Harmony and National School of Public Policy, Lahore have been selected. The selection

of these two cases are both purposive and has pragmatic reasons such as time, resource limitations and personal contacts. Therefore the findings of this research can neither be generalised⁸ for other federal ministries nor for other government departments in other provinces where such reforms are in place.

For this research, qualitative tools have been employed to answer the main research question, which primarily comprise interviews, group discussions and informal discussions with the functionaries in the selected cases. The interviews were semi-structured in nature, comprising of open and close ended questions which allowed the research to understand the complexities of the subject matter in the context of Pakistan (see Annex 1 for interview protocol). The open-ended questions gave the interviewee an opportunity to shape his or her own responses or even to change the direction of the interview altogether [Fife (2005)]. In this research, the total number of 10 interviews were used for analysis. However, to reduce the sampling biasness, it was taken care that only relevant functionaries be selected from two case studies. In addition, to have difference of opinion, the MTBF Cell in the Ministry of Finance, was also visited and brief interviews were also conducted with the staff on the subject matter.

5. FINDINGS

The findings of this research are bifurcated into four parts in order to fully address the objectives and research question. These comprise issues, challenges, prospects and general perceptions. However, first, this section presents general perception about MTBF and then moved on to issues, challenges, and prospects.

5.1. General Perception

The general perceptions about MTBF differ among the different rank officers in both the cases with respect to its efficacy, origination, and distinction from previous budgeting system. To most of the interviewees, this system has been introduced by World Bank, but found no big difference from traditional budgeting. In their opinion, only the paper work and documentation has increased to some extent. One interviewee highlighted that *“to me it is like a jargon-type work, in which they [MTBF team] share blank documents or forms with instructions to put the estimates in certain pattern ...on the ground and practically the approaches are incremental and there is no extra ordinary changes...”* Another interviewee added that *“the documents which we are supposed to fill-in the government acquired both documents from us. Section I is previous system and Section II is about output.”* In another interview with Ministry of Finance, it was clarified that *“pink book [section I] is input budget and green book [section II] is output budget. Both the books serve the same purpose but the perspective of analysis is different. In pink book it says how many people will be recruited or how much procurement will be made with 100 rupees for instance. Whereas, in green book it says how many services will be provided with that amount.”* This infers that selected cases have limited knowledge about filling these forms and do not understand fully the essence of that.

⁸This issues discussed in this paper are peculiar to these two ministries and hence, cannot be generalized, however, assuming the working conditions at other ministries, it is expected that conditions/issues/challenges will not be so different.

The involvement of the World Bank has not been taken on positive note. Rather, it is perceived as something being imposed on Pakistan. This is somehow also reflected in Oxford Policy Management report (2014), that contextual factors play a significant role in shaping the public financial management reforms. In addition, most of the initiatives by donors is often based on implicit model of international ‘best practice’ which target external legitimacy of public financial management system, rather than focusing on delivering domestic priorities and addressing immediate problems. During discussions with two cases, it was learnt that this system was also offered to India to implement, however, India refused that with the excuse that they were not prepared for that. The interviewees related this decision to the independence of Indian government on donor.⁹ In response to question about need of such system in Pakistan different responses emerged, for instance one interviewee said that *“the reason is World Bank. For financing budget, one need money and to get money one has to fulfil the conditionality of World Bank.”*, other interviewee opined that *“since we have more dependence on donors then we readily accepted their offer to do it...resultantly, things are not thoroughly discussed and researched, and internal capacities of ministries are not assessed for its weaknesses...”* Another interviewee elaborated it further by saying that *“it is very unfortunate in this country that we ask for rules and laws from abroad. Those rules which come from abroad become aliens for us and are not according to our needs. There are many things which have been implemented in the wake of World Bank instructions, all those things are revolving in specific section of one ministry and that information are not imparted to lower levels or trickle down to other ministries and departments.”*

With respect to efficacy of this new system, few interviewees could explain that. In their opinion, there might be benefits, because this system has been copied from developed countries, however, these benefits have not been revealed to them yet. For instance, one interviewee said that *“there is no question about MTBF, we totally agree that this is a useful tool and a very good thing.”* Another interviewee negated the notion and mentioned that *“if this system has any benefits, we are either unaware of it or there is no benefit at all.”* However, an interviewee from ministry of finance compared this system with budgets that are made at household levels. He explained that *“the budgets made at home are top-down...budgets should be in some way within the resource envelop. Like at home budgets are prepared within salary, it should also be made here [at government level] within a resource envelop.”*

With respect to efficacy and benefits of this new budgeting system, the Ministry of Finance emphasised that it has delivered and this has been endorsed at all political level. But first it is pertinent to understand what the benefits are. The interviewee elucidated that *“if you want Pakistan to become America or Dubai, if that is the benefit, then definitely not achieved. If you want to see everyone prosperous in the country, then again not achieved...The affluence and objectivity of this system have slightly been achieved...the per capita income has increased, and we can say that this system has contributed to that end...the growth in the economy has occurred because of this improved budgeting system...”* However, there is no concrete evidence that could support this statement. In addition, the interviewee related this system to foundation of a house. He reiterated that one should not demand a house at the stage of foundation. He

⁹However, no concrete evidence was provided in support of this statement nor could find on internet.

augmented that *“this system is running for the last 6 years; the cabinet endorse it every year; cabinet call one point agenda i.e., Budget strategy paper; this system goes to the Parliament and government is taking it seriously; we call every principal accounting officer to priority committee meeting to discuss the ceilings...if you compare benefits in these terms then a lot can be found but if you are comparing Pakistan with America or Dubai then we have not achieved the status yet...”*

To sum up, the general perceptions about this new budgeting is that it has been imposed on them from abroad primarily World Bank, and so the spending units or ministries have limited knowledge and understanding about its essence. When this was introduced the contextual factors were not taken into consideration and the capacities of implementing agencies were not boosted up. That is why the selected cases are unaware of the benefits it warrants or in built in it. To most of respondents only documentation has increased and no difference could be spotted with previous traditional budgeting system.

5.2. Issues

In this research study an attempt has been made to gauge the implication of MTBF in the context of Pakistan. Many different issues were raised during interviews that hinder the progress in fully implementation of the system.

The general impression about MTBF is that the framework is good but this has not been implemented fully, because of lack of capacity at the end of implementing agencies. The officers got very limited training on the preparation of these documents. One interviewee shared that *“I attended training sessions on MTBF, which lasts for just 2-3 hours...I do not call it training as such...”* In addition to that things are implemented in the country without prior homework, without embedding and understanding the true essence of that. One interviewee said that *“it doesn’t matter how many new systems you introduce, but if the working units are not properly estimating their costs...how can improvement be made...one thing is that we do not try to understand the spirit of anything...when we make budgets, we start with estimates then go to priority committee meeting and settle it there. Then we forget about the outputs/outcomes type things. Everything ended up with just figures at finance and at ministry level.”*

It was revealed and very unfortunate that output estimates are prepared by accountants in some ministries/departments/autonomous bodies. These accountants do not understand what the goals or objectives of the organisations are. They just resort to make averages. This was revealed by one interviewee that *“we do it by taking averages. For instance last year it was 50, this year 60, for the next year the estimate will be 55...”* In one case study it was revealed that lower rank officer shared information with Pildat¹⁰ without bringing in the notice of head of the organisation. Some officers are not taking their job seriously, and general notion that prevails is that *“ye kam hum kartay rahtain hain [its routine matter and we do it]...”* The officer explained that *“we have not changed the pattern, except filling extra forms...how could we feel the changes [benefits] it*

¹⁰Pakistan Institute of Legislative Development and Transparency is an *independent, non-partisan* and *not-for-profit* indigenous think tank focussed on political and public policy research and legislative strengthening. They conduct research on issues including finance, economy, poverty-reduction, regional/international trade, foreign/regional relations, political-economy, inter-provincial relations/federalism, women/youth in politics, etc. for details see <http://www.pildat.org/> retrieved on 8-9-2016.

brought in itself. We have not understood the meaning of this MTBF. We do not understand things but 'we do it'...and this notion of 'we do it' is not a good thing..." In addition, it was revealed that filling MTBF forms are just like '*karwai dalna*' [fulfilling the formality]. Most of the budget preparation are incremental in nature and the rest are just *karwai*.

Medium term framework is basically preparation of annual budget over rolling medium term which is normally 3 years. It is expected that this extended horizon provides increased predictability of budgets to ministries and spending agencies, which is essential if they are to be able to plan their strategies and budgets on a sound basis. Contrary to this expectation and perception, the respondents in case studies were not quite happy with multi-year estimates. One interviewee described that "*I am myself not clear about the utility of next 2-3 years projections. As one has to go to the same procedure next year in February and March, and discuss issues with Finance Department and again they [Finance Department] allocate budget for the next three years....*" Another interviewee shared that "*my actual focus is on this current year...I do not have any mechanism with which I could estimate figures for the next year.*" This infers that officers are facing problems because they are not relating their estimates with next year planning and objectives of the organisation, rather, confining themselves to incrementalism. In response to these reservations Ministry of Finance/MTBF cell favoured this multi-year planning as it helps them in predictability of resources. One interviewee explained that "*another important thing is resource predictability for line ministries that is why we introduced three year future prediction rather than one year. If policies are medium term then budget should also be medium term. If policies are medium term and budget for one year, no matter how best policy one prepares it will not be implementable, because you will have no money...*" From this it is inferred that medium term budgeting is imperative for medium term planning.

One of the main element of MTBF is preparation of output based budgeting, where certain key performance indicators have been developed for each ministry/attached department/autonomous body. These KPIs are related to the overall goal and objectives of the concerned ministries. There are certain issues in the development of KPIs and determining objectives of ministries including the two selected cases. Both cases in this study exhibit discomfort with their KPIs and objectives of the organisation. In the ministry of Religious Affairs it was revealed that KPIs were developed by representatives of MTBF cell, as they were unable to figure out. In addition, it was really very hard for the ministry to sort out the outcome of the services they offered. One interviewee explained that "*what is performance or what is the target...to make performance indicators for ourselves is a really hard task...the reason is that our major activity is Hajj. We are listening from public and being applauded by print media that Hajj has improved as compared to the last 3-4 years...If I ask someone to write performance and governance related issues, what he will write...Have we sent more pilgrims...the answer is No, because we have fixed quota. Then what makes our Hajj successful? I cannot describe that...*" He further explained that for some departments these outputs/performances are very visible like education and health. But to see the real impact of education is again difficult to quantify. With respect to developing KPIs, the Ministry of Finance, also admits that it is really very hard for some ministries, for instance, Ministry of Foreign Affairs to prepare KPIs.

As mentioned earlier, the essence of MTBF has not been fully understood in selected case studies. A complaint was raised by one respondent that Indicative Budgetary Ceiling (IBC) meeting should be called before the Budget Call Circulars (BCC) are issued, so that Ministry of Finance must listen to the needs of concern departments. However, the Ministry of Finance did not embrace the idea. In their opinion, the budget should be made as per affordability and not according to the necessities. If budget start making on needs basis then this budget figure would easily jump to 6 trillion from 4 trillion rupees. The reason for empathising the affordability is deficit financing means government takes loans for it. After comparing both the views, Ministry of Finance points hold ground and are more valid. Under the IBC the Ministry of Finance has given liberty to all ministries to allocate the resources according to their own priorities. However, learning from different interviews, it can be inferred that priorities are not always right and there is lack of capacity at spending units/ministries. In addition, there are also apprehensions at ministries/spending units' level that money are not being spent on purposes for what it has been demanded or sanctioned.

One such point was raised about demand for money within the ministry. It was learned that lower rank officers used to be very hesitant in asking for funds. This shyness sometime create many problems in service delivery. One interviewee narrated that *“actually they have been frightened by someone that even if you demand money, there will be no release and allocation. They demand money with fear rather than asking pro-actively...There are two extremes...when your force them to demand money, they [attached departments/lower staff] start asking for irrelevant things...when you ask them to be careful in demanding, they do not demand even for necessary items...”* This infers that spending units have really capacity issues in running their affairs. This is also vivid from another statement in which an interviewee accepted that capacity issues do exist in dealing with demand for money, for instance he said that *“there is another problem that people demand more, as they are aware that finance ministry will put a cut on that and their apprehensions are true...on the other hand finance ministry also judge them correctly...”* That is the reason that most of the ministries' meetings with finance ministry are not always in pleasant environment. Rather, a general perception is that MTBF cell/Ministry of Finance team takes credit and applause when put cuts on ministries budgets.

Since budget is political document [Bengali (2014)]¹¹ and a whole political process is involved in its preparation and approval. Ahmad (2003) has aptly noted from World Development Report that *“the budget is the critical link on the long route of accountability connecting citizens to providers through politicians and policy-makers”*. However, the political system has not fully developed in the country and so do the institutions, which provide support to the system in disseminating accountability. When raised question about fully implementation of MTBF, it was revealed that MTBF cell or Ministry of Finance are not issuing budget call circular on time and as per scheduled set by ministry of finance, which create hurdles for the ministries to prepare estimates in short span of time (for detailed scheduled see Annex 5). This also highlights the

¹¹Dr Kaiser Bengali, government of Sindh, “the political nature of the budget”, interview, 9 September 2014 cites in Development Advocate Pakistan, *The Political Economy of the Budget*. Volume 1 Issue 3, 2014. pp. 25 and 3.

importance of these figures in the eyes of the Ministry of Finance and attention being paid to these budget call circular. Similarly, at ministry level the officers do not take it that much seriously.¹² In addition, the credibility of green book which comprises targets or output, are also get at stake.

To sum up the issues related to MTBF in Pakistan, it can be inferred that spending or executing agencies have capacity issues, and do not fully understand the essence of this new budgeting system. They are taking it lightly and not seriously by preparing these documents by accountants. There are still some contentions between ministry of finance and spending units on the multi-year projections and meeting calling on Indicative Budgetary Ceilings (IBC). The spending units want to have all their needs fulfilled whereas, ministry of finance is keeping in view the affordability of ministries' needs.

5.3. Challenges

During interactions with different officers in selected case studies, some challenges come to the forefront in discussion. These challenges are mostly related to inbuilt bureaucratic setup in the country. Unless these challenges are addressed, progress and effectiveness of this new system would be a distant dream. Below are some of the challenges.

While it is imperative for the government ministries to prepare budgets by taking into account all inputs from attached and autonomous bodies, it was revealed that coordination between different departments can hardly be seen. For instance, in case of Ministry of Religious Affairs, money went unspent and surrendered to Ministry of Finance, instead of being spent on attached department's needs. One interviewee elaborated that *"we have problems in our ministries. Yesterday I went to Hajj office in Peshawar and they were complaining and facing financial problems for certain things. I asked them why you didn't approach me. I had excess money and I surrendered that to government. If knew earlier I would have given that to you...they communicated their request to wrong department and so was not properly handled...this is lack of coordination..."* Similarly, in NSPP, it was mentioned that there is lack of coordination among Establishment Division, NSPP and Federal Public Service Commission, in coordinating activities related to trainings of officers. For instance, one interviewee revealed that *"our objectives are not in our hands at NSPP. If we want to change our objectives and if we want to introduce other optional courses for in-service civil servants besides mandatory courses, can we do that? Can we change our objectives? When the establishment division will ask us to do such activities then we will do otherwise we cannot take initiatives from our own...similarly we cannot alter the duration of the training unless told by Establishment Division..."* This infers that NSPP cannot make their objectives ambitious unless approved by Establishment Division, despite having own Principal Accounting Officer. This is the limitation in this new system. However, later it was mentioned that indeed consultations do occur with establishment division but still there is no independence in pursuance of objectives. Therefore, for complete implementation and ownership of the document, coordination between different departments are pivotal.

¹²Compare with statements about *'karwai dalna'* and *'its routine matter and we do it'*.

One of the most challenging task ahead of Ministry of Finance and MTBF cell is its complete enforcement. The document (MTBF) asks different ministries about outputs and outcomes but to check that in real time is gigantic task. It was admitted by MTBF cell that as far as preparation of budget is concerned this system is good but enforcement and implementation are very weak. The reason forwarded was that 'budget execution is highly political issue, and this system is not working in budget execution'. By better execution they meant that there should be no alteration in spending heads and figures by the government during the year. Spending money as per allocation and under same head is also a difficult task. One interviewee stated that *"it is very difficult, if you ask NSPP that in whichever head you got the money, you will stick to it and will not change it, they will start shouting..."* This infers that this type of discretion about re-appropriation is highly requested and required, otherwise fiscal targets would not be achieved on government side as well as at spending units end. However, there are some issues at government end regarding bans on certain things like recruitment etc. The government doesn't show their intentions before budgets, when money are allocated and budgets are passed, the government put ban on those things, resultantly budgets get lapse.

For the success of MTBF, the foremost challenge is the attitude of civil servants. This is also in line with opinion of Oxford Policy Management (2008: 1) when stated that *"a successful MTBF requires changes in the budgeting process but also in the behaviour, attitudes and capacities of the politicians and officials involved..."* The MTBF cell officers shared that this new budgeting system is about change, for that different skill sets are required. The civil service in Pakistan has no such skill sets. In civil service, there are frequent postings and transfers and no matter how hard one equip an officer, after few months he get transferred. That is the reason that such systems work only in developed countries and less in developing countries. Furthermore, there are always resistance from civil servants and political system because they are not adapted to change. Therefore, this system is running in such (developing) economies but have not transformed the whole country.

When asked about difficulties faced during the earlier implementation, it was shared by both cases that there are capacities issues, and a system which is in practice for decades how can it be expected from a person to switch to new system in one year and link the budgets on modern lines with objectives. In contrast, the MTBF representatives mentioned that accountability, transparency, responsibility, delegation of authority are in-built in this system. Nevertheless, everybody resists accountability. It was mentioned that *"this is about changing system, and during changing system, there are certain people whose back-pockets get hit. Those whose back-pocket got hit, resisted this system..."* In addition, in their opinion, this system works best when there is decentralisation of authority. However, the Ministry of Finance and Planning always urge for more power, authority, control, and less decentralisation. Therefore, it can be inferred that in order to make it success, things need to be decentralised.

Another challenge for MTBF and Ministry of Finance is that spending units are not taking it seriously. This is vivid from the fact that Principal Accounting Officers are being called for meetings with priority committee in order to defend their budgets and answer the committee questions. The committee is chaired by Secretary Finance, Planning and Economic Affairs Division. However, the Principal Accounting Officers

not often attend the meetings, rather send their representatives. This lacklustre attitude succumbed the system to not fulfil the objectives if not a total failure.

With respect to accountability and transparency, this system still have many lacunas. For instance, when budget estimates are being prepared and allocations being made under different heads, there is not complete transparency. Despite these lacunas, the parliament pass it, without knowing where the money will be spent. For instance, take the case of Cabinet Division, there are many heads such as ‘Cabinet’, ‘Cabinet Division’, ‘Development Expenditure of Cabinet Division’, and ‘Other Expenditure of Cabinet Division’. For ‘Cabinet Division’ 5.6 billion rupees have been allocated in the year 2016-17, but nobody knows where it goes, but still the budget get passed by parliamentarians. In total 27 billion rupees will be spent by ‘Cabinet Division’ without clarifications. There are also instances that one ministry has many attached departments, and when demand for grants are passed, nobody sure about share of each department. The ministry of Capital Administration and Development Division (CADD) has five attached departments¹³ and their total budget is 20.8 billion rupees, but nobody is sure how much each entity would get out of that. This creates ambiguity in the budgeting system and to bring transparency is one of the challenges MTBF cell face.

The MTBF’s documents lack information about development projects and especially about commencement and completion dates. There are not even milestones mentioned that could justify the cost of the project. More surprisingly, most of the ministries (as revealed by MTBF cell) have no knowledge about their milestones. This exhibits the overall capacity of ministries and how huge projects are funded and funds utilised in Pakistan. In order to make them comply with or submit such information, is a challenge for ministry of finance and MTBF team.

As mentioned earlier, transparency and accountability are in-built in MTBF system, however, to implement that is a big challenges as most of the decisions are based on government whim. Recently, a report was prepared by MTBF cell about monitoring of budget spending and recording performances of different ministries. Since the performance of the ministries was not up to the mark and for being unhappy with progress, the government have not allowed the report to be published. In the report most of the blame have been put on Ministry of Finance and Planning for poor execution.¹⁴ Therefore, sharing actual information with public has become a challenge in the country.

At the ministries level as well as in selected case studies, for the success of this system, one of the biggest challenge is the involvement of senior level officers in budget preparation and pursuance. For instance, in NSPP, one billion rupees have been allocated for construction of university. In papers, the university should be built by 2017, but so far nothing has been done for that. This show the level of involvement of senior level officers in budget allocations and spending. Similarly, at MTBF cell, there are consultants who are running the affairs and no permanent staff have been hired for this purpose, which also make the existence and operations of MTBF at stake.

¹³These include Federal Directorate of Education, Pakistan Institute of Medical Sciences, Directorate General of Special Education, Polyclinic and National Institute of Rehabilitation Medicine.

¹⁴This was revealed during interviews with Ministry of Finance and MTBF cell representatives in Islamabad.

To sum up, challenges are many that linger in the implementation of MTBF in Pakistan. These include: lack of coordination between ministries, attached departments and autonomous bodies in allocation of resources and setting priorities. In some attached departments and autonomous bodies, there are independent principal accounting officers, who are authorised to formulate budgets, however, they are not allowed to alter their objectives or make it more ambitious. This was evident in the case of NSPP. Similarly, decentralisation is desired however, authorities, power and control have not been devolved yet. In addition, there are many capacities issues and budget allocations under different heads are not made transparent. Furthermore, government is reluctant to share true information with public about the real progress made by all ministries, which make this system less beneficial.

5.4. Prospects

The MTBF has much to offer if properly and sincerely implemented. This system has been used by many developed and developing countries alike to improve their governance system.¹⁵ But since this system is in its embryonic stage in Pakistan, a lot more has to be done at implementation stage. Some of the prospects that were discussed with respondents of two case studies are as follows.

There are two types of auditing, one is '*financial auditing*' which shows the total amount, how much has spent and how much left; second is '*value for money auditing*' which shows that if one is going to audit an organisation, one has to understand the objectives of that organisation, i.e., what is the purpose of existence of that organisation, and whether objectives are being achieved or not. This MTBF can be very handy in second type of auditing. An interviewee elucidated that "*we can relate this document with Auditor General, if they want to do performance audit...they have recently did performance audit of Commerce Ministry, and most of the information were based on this document...*" Nevertheless, this document would become handy if all the figures and outputs are rightly and objectively filled-in by respective ministries/departments/ autonomous bodies. If an organisation/ministry is not sure about their outputs/KPIs or even goals and objectives, judging them against such benchmarks would be a futile exercise.

Moving from traditional budgeting system to this new system, it was expected that this would help the planners to make rational decisions. The traditional budgeting were mostly based on inputs and nobody knew what these ministries were doing, or in other words it was hard to quantify their activities. Unless and until one is fully aware of these financial figures, one cannot make a rational decision. In addition, the earlier budgeting books were not clear about setting priorities, their actual expenditure and areas where money has been spent. This document aims to enhance such understanding and if continue would help in making rational decision in national and departmental interests. For that purpose, new Performance Contract System is underway in Ministry of Planning Commission, that contract would be made between Prime Minister and Ministers. Most of the information would be gathered from this document, to assist the Prime Minister to evaluate the performance of their Ministers in their respective Ministries.

In order to hold the Principal Accounting Officers (PAOs) accountable, a new monitoring call circular would be circulated soon, in which the information would be mostly based on MTBF. In this new circular all the PAOs would be asked to report about

¹⁵This was mentioned by two interviewees during the field work at Islamabad.

promises they made during the budget, whether they honoured that or not. If they could not achieve their targets or honour their promises, what were the reasons? For that matter efforts are being made to get legal backup of MTBF.

Besides helping in making rational decisions, this MTBF has simplify many things. For instance, going through traditional budget books was not an easy task for a layman. Few people could understand or comment on that, which made the budget less transparent. This new system has increased the readability of budget books for masses, and would further allow more people to comment or raise objections over allocations. By doing this, the interviewees revealed that the overall ranking of Pakistan has improved in Open Budget Index.¹⁶ By this manner, the public representative can be held more accountable to public.

To sum up the prospects of MTBF in Pakistan, if properly implemented and seriously pursued, then many benefits can be reaped. For instance, the Auditor General can use this document for performance audit of different ministries as they recently did. Based on these information, new performance contract system in underway in which Prime Minister can easily monitor the performance of different ministries. To make the principal accounting officer more accountable new monitoring call circular would be issued soon which will also have legal backup/cover. When the readability of the document increased, more transparency would be ensured in preparation and allocation of resources in budgeting in the country.

6. CONCLUSION

The main purpose of this research was to understand the newly introduced medium term budgetary system in Pakistan and its implications for the country. By implications we refer to the perceptions of executing agencies that what changes have been introduced and whether the essence of this new system have been fully understood and implemented or not. This research bifurcate the discussion into four parts i.e., general perception, issues, challenges and prospects of the system.

The general perception that prevails among the selected line ministries is that this system have been imposed on them, rather than having an impetus from inside. The selected case studies do not see any difference from previous budgeting system except burdening them with more paperwork and documentation. The contextual factors were not taken into account during its implementations and capacities of the implementing arms were not boosted up, that could be the reason that respondents in case studies are unaware of the benefits this system brought in.

Many issues have been highlighted about lack of coordination between ministries, attached departments and autonomous bodies. Within ministries, there are capacities issues, and incompetent and irrelevant officers are tasked to prepare budgets. For some line ministries, outputs and key performance indicators (KPIs) are hard to establish. When MTBF team prepare such things then question are raised about the ownership. In

¹⁶After checking for the last three years, their claim do not hold ground. As Pakistan score was better in 2012, than 2015 and 2010. It should be consistently improved if our budget information are getting open to public. For details see <<http://www.internationalbudget.org/wp-content/uploads/OBI-2012-Rankings-English.png>> <<http://www.internationalbudget.org/wp-content/uploads/OBS2015-OBI-Rankings-English.pdf>> <http://www.internationalbudget.org/wp-content/uploads/2011/06/2010_Rankings.pdf retrieved on 17-9-2016>

addition, there are some contentions between spending units and Ministry of Finance on indicative budgetary ceilings (IBC) meeting schedule, spending units want to have it before Budget Call Circular (BCC) issued whereas, ministry of finance is holding it after BCC. The reason being that the ministry of finance is keeping in view affordability whereas line ministries want to have their needs fulfilled.

The complete enforcement of MTBF is the biggest challenge for Ministry of Finance. Since budget execution is political issue and confining government to stick to their promises made during the budget is not an easy task. In addition, informing public about real progress of ministries, the government seems reluctant, which is challenge for ensuring accountability and transparency. Another challenge is the bureaucratic setup, who are not adapted to change, and their frequent postings and transfers do not allow the system to flourish or sustain. For the success of this system, decentralisation is highly desired, however, Ministry of Finance and Planning urge for more power, authority, control and less decentralisation. The principal accounting officers less often attend the priority committee meetings to defend their budgets, which is a challenge for the successful implementation of this system.

Recommendations

- Involvement of senior level officers/principal accounting officers is essential in formulating budgets and aligning budget with objectives of the ministries/ attached departments/autonomous bodies.
- In order to fully utilise the development budget, the rules of public procurement regulatory authority need to be simplified and relaxed.
- The ministries need to understand the essence of the medium term budgeting and comprehensive training are required to all staff members involved with budget preparation and execution. Besides building capacities, the service tenure should be ensured for civil servant during the reform process.
- The issues related to meeting call for indicative budgetary ceilings should be resolved between ministries and ministry of finance for the better implementation of this new system.
- A change management unit should be established in every ministry/attached department/autonomous body who should supervise the ongoing reforms and address the conflicts and confusion if arise.
- The monitoring systems as envisioned and built-in the system, need political will for full implementation.
- The incentives and evaluations (performance evaluation report) of civil servants should be linked to this system. By this way they will held responsible for their activities and involvement in achieving organisational objectives.

ANNEX 1

INTERVIEW PROTOCOL

Main Research Question

What are the implications of MTBF on Budgetary system in Pakistan?

Interview Questions

- (1) Can you please briefly describe something about your background and the work you do in this department? Have you worked in other regions/cities/departments before?
- (2) What is MTBF in your opinion? How is this system different from other budgeting system?
- (3) How budgets are prepared under this system and what difference does it make from previous system in Pakistan?
- (4) Do you think MTBF is a western concept and Pakistan need to have some more time in implementing such system in its true sense (or in letter and spirit)?
- (5) In your opinion, what difficulties were faced when this new system was introducing in Pakistan? Do you think Pakistan fulfilled all prerequisites for introduction of MTBF?
- (6) Keeping in view MTBF, how priorities are set by this ministry/department? How Output base budget (OBB) are prepared? Where do the targets come from and how costs are estimated? How realistic are the targets set in OBB?
- (7) Keeping in view the previous years' budgets, what benefits have been extracted from MTBF system? Can you please briefly elaborate (if any)?
- (8) When Ministry of finance put a cut on budgets, do they put cut on outputs or on costs of doing things?
- (9) In your opinion which budgeting system would you prefer for Pakistan? And Why?

ANNEX 2

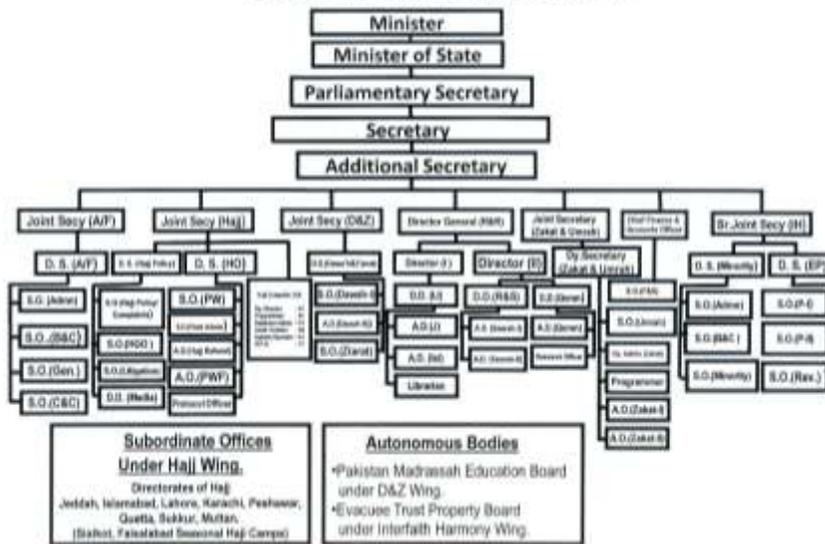
Administrative wing of National School of Public Policy, Lahore



ANNEX 3

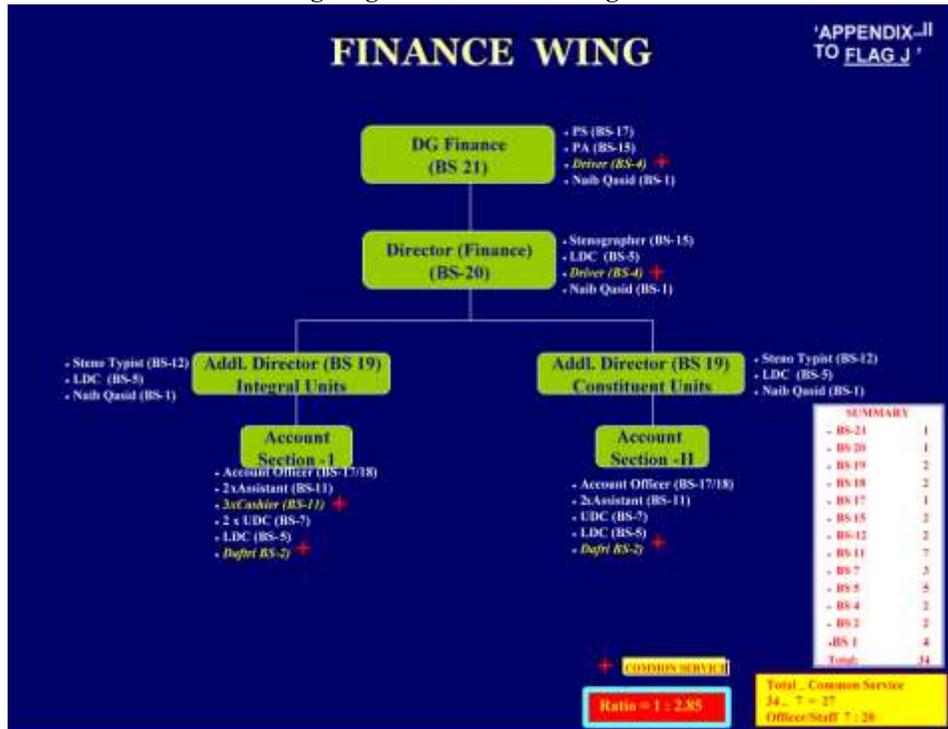
Organogram Ministry of Religious Affairs and Inter-Faith Harmony

ORGANIZATIONAL CHART



ANNEX 4

Organogram of Finance Wing NSPP



ANNEX 5

Budget Calendar

The time-schedule prescribed for the submission of budget estimates in respect of Receipts as well as

Current and Development expenditures of the Federal Government on Chart of Accounts is given below:

FEDERAL RECEIPTS

S #	Activities	Responsible	Deadline (Last date)
1.	First Preliminary Revised Estimates (2015-16) and Budget Estimates (2016-17) of Federal Government Receipts together with reasons for variations	Principal Accounting Officers	By 29th January, 2016
2.	Final Estimates of Federal Government Receipts (Revised 2015-16 & Budget 2016-17) together with explanatory notes thereon	Principal Accounting Officers	By 14th March, 2016

CURRENT AND DEVELOPMENT EXPENDITURES (REVENUE & CAPITAL)

S #	Activities	Responsible	Deadline (Last date)
1.	Issuance of "Budget Call Circular" 2016-17	Finance Division	13th January, 2016
2.	Development of Budget Strategy Paper	Finance Division	1st February 2016
3.	Presentation of the Budget Strategy Paper in the Cabinet for approval	Finance Division	Second week of February, 2016
4.	Letter of Indicative Budget Ceilings (3 years) to the PAOs of Ministries / Divisions for current expenditure and development expenditure and copy of ceilings to FAs/DFAs and Sector Chiefs in Planning Commission	Finance Division	Second week of February, 2016
5.	Last date for Submission of Section I Forms by Ministries / Divisions for current budget to FAs/DFAs	Fund Centres, Ministries / Divisions	By 29th February, 2016
6.	Last date for Submission of Section I Forms by Ministries / Divisions for development budget to Sector Chiefs in Planning Commission and copy to FAs/DFAs	Fund Centres, Ministries / Divisions	By 15th March, 2016
7.	Last date for submission of Section I Forms (BOs/NISs) on Chart of Accounts for current expenditure to the Budget Wing (Finance Division)	Principal Accounting Officers	By 21st March, 2016
8.	Last date for submission of Section I Forms (BOs/NISs) on Chart of Accounts for development expenditure to the Budget Wing (Finance Division)	Principal Accounting Officers	By 28th March, 2016
	Fair copies of the NISs for Development / Capital budget may be sent to BR-III Section of the Budget Wing, Finance Division after the same have been countersigned by the relevant Technical Section / Programming Section of the Planning, Development and Reform Division.		
9.	Review of budget in the Priorities Committee Meetings	Priorities Committee	First week of April, 2016
10.	Annual Planning Co-ordination Committee (APCC) meeting	Planning Commission / Finance Division	End of April, 2016 (tentative)
11.	NEC meeting	Planning Commission / Finance Division	First week of May, 2016 (tentative)
12.	Finalization/Printing of Section II Forms by the Ministries / Divisions. The concerned Ministry/Division will retain these forms.	Budget Section, P&D Section in Ministries / Divisions	By 11th May, 2016
13.	Submission of Final "Green Book" report to Budget Wing (MTBF Secretariat), Finance Division	Principal Accounting Officers	By 16th May, 2016
14.	Completion of all Budget Documents (including Green Book), Schedules and Summaries for Cabinet etc.	Finance Division	One week before budget speech
15.	Presentation of Budget to the Cabinet and the Parliament	Finance Minister	27th May, 2016 (tentative)

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